FOREIGN POLICY ASSOCIATION

Information Service

VOL. III—NO. 23 JANUARY 20, 1928

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Published bi-weekly by the FOREIGN POLICY ASSOCIATION, 18 East 41st Street, New York, N. Y. JAMES G. MCDONALD, *Chairman;* RAYMOND LESLIE BUELL, *Research Director;* WILLIAM T. STONE, *Editor.* *Research Assistants:* HERBERT W. BRIGGS, DOROTHY M. HILL, E. P. MACCALLUM, HELEN H. MOORHEAD, M. S. WERTHEIMER, AGNES S. WADDELL, NATALIE BROWN. Subscription Rates: $5.00 per year; to F. P. A. members $3.00; single copies 25c.

Mexico, the Caribbean and Tacna-Arica

Current Relations with the United States

THE meeting of the Sixth Pan-American Conference now in session at Havana has aroused widespread interest in existing relations between the United States and Latin America. At the present time our relations with six of the twenty Latin American republics are attracting special attention: Nicaragua, because of the renewed fighting between Americans and irregular Nicaraguan troops under General Sandino, and the promise of the United States to supervise the elections of 1928; Mexico, because of recent developments in the land and oil law controversy; Panama, because of the negotiations for a new treaty to replace the Taft Agreement; and Cuba, Haiti and Santo Domingo, because of the special treaty position of the United States in those countries.

The present report reviews our relations with these six countries and the attempted mediation by the United States of the Tacna-Arica dispute between Chile and Peru. Tables presented in the Appendix summarize economic and financial relations between the United States and Latin America.

NICARAGUA

The basis of the United States' relations with Nicaragua has undergone a fundamental change during the past year. Prior to the Stimson settlement of May, 1927, the presence of United States marines and naval forces in Nicaragua, which in January numbered approximately 5,000 officers and men, was officially based on (1) the necessity for protecting American lives and property, threatened by the revolution which had been in progress since May, 1926; (2) the protection of foreign lives and property, requested specifically by Great Britain and Italy; (3) the preservation of the rights granted the United States in the Bryan-Chamorro Treaty of 1916 for the construction of an interoceanic canal across Nicaragua. Despite the action of United States marines in declaring neutral zones in districts where foreign lives or property were threatened, the United States repeatedly declared that it was not supporting either faction in Nicaragua and had no intention of interfering in the internal affairs of the country.

This phase of American relations with Nicaragua has been reviewed in an earlier issue of the *Information Service*.* The Stimson settlement introduced a new phase in which the United States intervened with the consent of both parties to bring an end to the hostilities and assumed the full responsibility for maintaining peace and order until after the presidential elections of 1928, which it agreed to supervise.

APPOINTMENT OF HENRY L. STIMSON

The appointment of Mr. Henry L. Stimson as a personal representative of President Coolidge was announced by the State Department on April 7, 1927, after all efforts to achieve a settlement between the Conservative Government of Adolfo Díaz, recognized by the United States, and Dr. Juan B. Sacasa, the Liberal President, had failed. The State Department announced that Mr. Stimson had consented to make a trip to Nicaragua "in order to take to our Minister, Mr. Eberhardt, and Admiral Latimer, certain views of the Administration which cannot conveniently be taken up by correspondence, and in order to get information from them as to the entire situation in that country to bring back for the use of this Government."

The events which followed soon made it apparent that Mr. Stimson's authority was much greater than that announced by the State Department, and that his mission was entrusted with the task of bringing about a settlement, if possible, between the warring factions.

On May 6, 1927, the State Department made public the following report.

> Mr. Stimson has reported very substantial progress towards a clearing up of the situation in Nicaragua. In hearty cooperation with Mr. Eberhardt, the American Minister, and Admiral Latimer, he has, since his arrival in that country, conferred with President Díaz and other officials of the Nicaraguan Government, with the Liberal leaders at Managua, with representatives sent by Doctor Sacasa from Puerta Cabezas, and with General Moncada, Commander of the revolutionary forces in the field. He found President Díaz and his associates well disposed and prepared to welcome any reasonable adjustment. He has also encountered what he regards, in all the circumstances, as a fair and understandable attitude towards settlement on the part of the leaders and representatives of the opposition to the Government. The two main difficulties in the way of a constructive settlement have been the inability thus far of the Revolutionists to reconcile themselves to the continuance in power of President Díaz until the election of 1928, and the lack of what they would consider effective guarantees for a fair election when held. Naturally these two points are intimately related. In the past, the party in power in Nicaragua, whether Liberal or Conservative, seems to have made use of its dominant position to control and manipulate elections, with the result that the opposition, feeling that it could not have a fair chance, has at times resorted to violence. Mr. Stimson emphasizes strongly this distrust of the fairness of elections as the fundamental factor in the situation, going far to account for the unfortunate resort to *coups d'état* and revolutions. His mission has, therefore, been concerned with an effort to find a way to overcome the difficulty that whatever might be said on theoretical grounds for the idea of a neutral President, agreed upon by both parties, as a practical matter it would not be possible, in the existing circumstances, to find any individual who would be acceptable to both sides. Consequently the demand of the Revolutionists that President Díaz retire at once in favor of some other individual to be agreed upon did not seem to point the way to a solution. Mr. Stimson, in his frank discussions with all the factions, has gone to the root of the problem and explored with them the possibilities of a neutrally supervised election in 1928, meanwhile providing for reasonable participation in the Government by the Liberals, and for such guarantees of security for life and property as the actual conditions call for.

THE EVIL OF UNFAIR ELECTIONS

In a message to the State Department, made public the same day, Mr. Stimson said:

> "My investigation has shown that this evil of government domination of elections lies, and has always lain, at the root of the Nicaraguan problem. Owing to the fact that a government once in power habitually perpetuates itself, or its party, in such power by controlling the election, revolutions have become inevitable and chronic, for by revolution alone can a party once in control of the government be dispossessed. All persons of every party with whom I have talked admit the existence of this evil and its inevitable results, and all of them have expressed an earnest desire for the supervision of elections by the United States in an attempt to get rid of the evil forever."

President Díaz, after conferring with Mr.

*Foreign Policy Association *Information Service*, Vol. II, No. 24, "United States Policy in Nicaragua."

Stimson, suggested the creation by Nicaraguan law of an electoral commission to be controlled by Americans nominated by the President of the United States, and he offered to turn over to this board for its purposes the entire police power of the State. The organization of a non-partisan constabulary, under the instruction and command of American officers, was further suggested by President Díaz, who, in this connection, asked for the continuance in Nicaragua of a sufficient portion of our present naval force to insure order pending the organization of the constabulary.

While they warmly approved the plan of a supervised election in 1928, the Sacasa representatives and General Moncada throughout the negotiations continued to urge the immediate substitution of some other man for President Díaz. Mr. Stimson could not agree to this condition. He informed the State Department that:

> "I am quite clear that in the present crisis no neutral or impartial Nicaraguan exists. Moreover, any attempt by the Nicaraguan Congress to elect a substitute for Díaz under the forms of Nicaraguan law would almost certainly, in the present situation, become the occasion of further bitter factional strife."*

THE PROGRAM ADVANCED BY MR. STIMSON

After these preliminary discussions Mr. Stimson informed the State Department that in his opinion the following program would be accepted by the Liberals and Conservatives:

1. Complete disarmament on both sides.
2. An immediate general peace to permit planting for the new crop in June.
3. A general amnesty to all persons in rebellion or exile.
4. The return of all occupied or confiscated property to its owners.
5. Participation in the Díaz cabinet by representative Liberals.
6. Organization of a Nicaraguan constabulary on a non-partisan basis, commanded by American officers.
7. American supervision of the 1928 election.
8. The continuance temporarily in the country of a sufficient force of American Marines to guarantee order pending the organization of the constabulary.

*U. S. Department of State, Press release, May 6, 1927.

Mr. Stimson did not meet Dr. Sacasa, the Liberal leader, who remained in Puerto Calezas. On May 3, however, he arranged a formal meeting with General Moncada, and representatives of Dr. Sacasa, who had made a hurried trip from their capitol on the east coast through the Panama Canal. That Mr. Stimson was unwilling to compromise on the essential points of his terms was indicated by the State Department in the statement handed to the press in Washington, May 6:

> At the conclusion of his conferences with General Moncada and the Sacasa representatives at Tipitapa on May 3rd, Mr. Stimson made it clear to them that the retention of President Díaz during the remainder of his term was essential and would be insisted upon. They all yielded to that statement, and General Moncada has undertaken to persuade his troops to lay down their arms. A truce until Saturday was declared for that purpose, and the American forces have been drawn up between the two armies in order that they may receive the arms of both.

Moncada declined to acquiesce, however, without receiving a written confirmation of the conversations and a specific statement that the United States would supervise the elections of 1928, and, furthermore, that the United States would forcibly disarm any troops who refused voluntarily to lay down their arms. He intimated that a letter from Mr. Stimson would help him to persuade his troops to lay down their arms.

Mr. Stimson's letter was as follows:

> "Confirming our conversation of this morning I have the honor to inform you that I am authorized to say that the President of the United States intends to accept the request of the Nicaraguan Government to supervise the elections of 1928; that the retention of President Díaz during the remainder of his term is regarded as essential to that plan and will be insisted upon; that a general disarmament of the country is also regarded as necessary for the proper and successful conduct of such election; and that the forces of the United States will be authorized to accept the custody of the arms of those willing to lay them down including the government and to disarm forcibly those who will not do so."*

LIBERALS SUBMIT TO STIMSON TERMS

With this letter Moncada returned to his troops and persuaded them that further resistance was futile. Mr. Stimson informed

*U. S. Department of State, Press release, May 10, 1927.

the State Department in a message dated May 5 that he believed it probable that Moncada and most of the insurgent leaders would actively cooperate in the pacification and government of the country. The arrangements agreed upon with Mr. Stimson for disarmament contained the following provisions: "General Moncada returns to his army to undertake to disarm his troops and will so disarm all his men in so far as it may be in his power. When ready to turn over arms he will notify Admiral Latimer, who will send a commission to take custody of such arms and ammunition. This Moncada will try to do within eight days." Under the same agreement General Moncada was to be given by the Nicaraguan Government certain supplies, clothing and $10 for each rifle turned over. Arrangements were made for the delivery of the arms when the time expired.

SACASA PROTESTS THE "AMERICAN ULTIMATUM"

Sacasa, from his headquarters in Puerto Cabezas, expressed his approval of the position taken by the Liberal delegates in consultation with Mr. Stimson. In a message of May 7, Sacasa stated that he sincerely deplored "the fact that the Government of the United States, departing from the principles of justice, and forgetting the true interests of a weak country, in order solely to sustain a régime born of a *coup d'état*, has not only violated and broken into pieces the Constitution of the Republic, but also the Central American treaty signed in Washington, D. C. For this reason, it is entirely impossible for us to accept said régime, to say nothing of the respect which is due our own honor and national dignity." Sacasa further upheld his representatives in their protest against the "American ultimatum, which was so humiliating to the people of Nicaragua and which meant the imposition of a régime that had been repudiated by public opinion." He left to General Moncada the decision as to what answer the Liberal army should give to Mr. Sacasa's proposal.

General Moncada had already given his answer in a proclamation dated May 5, 1927, in which he placed all responsibility for what might happen in the future in Nicaragua upon the government of the United States. The proclamation read as follows:

> "The delegates of President Sacasa, Dr. Argüello Espinosa and Cordero Reyes, received a copy of this communication and they as well as the undersigned, declared in an emphatic and conclusive manner, that the forces of the United States which are the unmistakable expression of 120,000,000 inhabitants which that nation shelters, are sufficient to do as they please with our little country, which has at the most 800,000 inhabitants, and that it is not humanly possible to oppose it, nor to oblige the Nicaraguan people to shed their generous blood in useless and mournful sacrifice; that the honor of the army and our own, in person and collectively, by virtue of declarations made to the world and blood shed on the battle field in defense of the Constitution and laws broken by Emiliano Chamorro and his successor Adolfo Díaz, oblige us to refuse such an undertaking; that we should be able to bow to force and give up perhaps our arms, but not our dignity and decorum.
>
> "Mr. Stimson replied that the national honor of the United States was also involved in the continuance of Señor Díaz because in recognizing him the American Government had acted in good faith and in a conscientious belief that the presidency of Señor Díaz was constitutional. He added that it was with deep regret that he performed the duty of making this declaration —a duty that President Coolidge had imposed upon him.
>
> "Never in my life had I moments and hours of more anxious thought. A horrible nightmare rested on my patriotic soul and I did not have the strength nor did I consider it right for me to resolve alone what the army and the entire country ought to do in this day of grief and anxiety.
>
> "I direct myself to my fellow citizens by means of these lines and I will ask the opinion of the Liberal army, victorious on the field of Tuestepe, victorious on all fields, since the army of Chamorro and Díaz did not gain a single combat, notwithstanding the open protection of the American marines, which enabled it to throw all the troops they could use against us in Palo Alto, Muy Muy and Las Mercedes, in which the Conservative power came out, as always, ridiculous, to sink today deeper still.
>
> "Recommending to my fellow citizens the greatest calmness, although it may be easier to say this than to carry it out, since I myself have in my breast the greatest torment of my life.
>
> "We, the Liberal Army and I, have complied with our duty. The Liberals have covered themselves with glory on the field of battle. Their honor now shines more gloriously over the whole

world. It may be that sometime justice will prevail.

"I am not inhuman. For a noble and generous cause I would put myself at the front of the constitutional forces, but I cannot advise the nation to shed all its patriotic blood for our liberty, because in spite of this new sacrifice, this liberty would succumb before infinitely greater forces and the country would sink more deeply within the claws of the North American eagle.

"Before I end I desire the country to know that both the delegates of Dr. Sacasa and I showed Mr. Stimson that from this moment henceforth, the responsibility for all that might happen in the present or in the future in Nicaragua, will rest absolutely upon the Government of the United States, and in no wise on the Liberal Party, the conqueror in the contest."

On May 11, Mr. Stimson met Moncada in a second conference at Tipitapa and agreed upon the final details for disarmament of the insurgent army. The agreement was confirmed the next day. Moncada and eleven Liberal "generals," including practically all of his supporters except one, Sandino, accepted the terms of the agreement. In a message dated May 12, Mr. Stimson wired the State Department that Colonel Robert Y. Rhea of the Marine Corps had been appointed chief of the Nicaraguan constabulary and had begun the work of reorganization.

STIMSON REPORTS END OF CIVIL WAR

On May 15, Mr. Stimson sent the following telegram to the State Department:

"The civil war in Nicaragua is now definitely ended. Nearly all the government troops and practically the entire insurgent army of Moncada have been disbanded and substantially all of their arms have been turned over to our custody. We have received thus far 6,200 rifles, 272 machine guns and 5,000,000 rounds of ammunition. There has been very little disorder and not a single American shot has been fired against the organized forces of either side. Among the Nicaraguans themselves bloodshed has substantially ceased since our actions of May 4th.

"There also seems less danger of banditry and guerilla warfare than I at first feared, even Cabulla, the guerilla chief of Chinandega, has notified us that he would follow the lead of Moncada and turn over his arms. The troops of both sides after giving up their arms are hastening to their homes so as to be in time for the planting of the year's crops and the resumption of their peace time occupations. This result has been accomplished by the faith of both sides in our promise to supervise the elections of 1928 and to give both sides a free and fair election. This was well expressed by Moncada in his final conference with me on May 11 when he formally made the following statement. 'The Liberals cannot believe that the Government of the United States through the personal representative of President Coolidge will give a promise which it will not fulfill. Once again the Liberals place their confidence in the United States. The leaders of the army will try to convince their men that this promise of fair elections will be fulfilled. The central point which the army wishes to be assured of is that the United States will do its best to give Nicaragua a fair election in 1928'."

Sacasa, after denying that the sovereign people of Nicaragua would ever accept Díaz, finally left Puerto Cabezas on May 23 and went to Guatemala.

AMERICAN PRESS WELCOMES THE SETTLEMENT

Mr. Stimson's settlement won the approval of the great majority of newspapers in the United States, including many who had strongly opposed the earlier policy of the Administration. The fact that Mr. Stimson had been forced to assume full responsibility for the enforcement of peace and order until after the supervised elections of 1928, by the use of the military power of the United States, if necessary, received very little comment. A few newspapers pointed out that the position of the United States and Nicaragua had been completely altered by the terms of the settlement, and that this government had assumed a virtual mandate over the Central American country, but they were greatly outnumbered by those who felt that the termination of hostilities justified the course that Mr. Stimson had taken.

The new responsibilities involved in the Stimson settlement were soon revealed. On May 16, one day after Mr. Stimson had filed his telegram announcing the end of the civil war, a band of 300 "guerillas" attacked a detachment of 45 American marines at La Paz Centro. One marine was killed and several were wounded, while 14 of the Nicaraguan band were reported killed.

Late in June, Sandino, who had refused to sign the Stimson agreement and had asked permission to deliver his arms at a point

some miles away, attacked a small marine detachment at Ocotal. Five marine bombing planes ordered to the rescue of the American troops were reported to have killed or wounded between 200 and 300 of Sandino's men. One marine was killed and one wounded.

Following this engagement Sandino retired into the mountainous region near the border of Honduras, defying capture by the American marines. On July 18 in reply to a letter from Mr. William Green, president of the American Federation of Labor, Secretary Kellogg stated that Sandino and his followers were in effect "nothing more than common outlaws" and were not representative of the Liberal party in Nicaragua.

UNITED STATES MARINES CLASH WITH NICARAGUAN BANDS

Whether or not supported by any responsible Nicaraguan elements, bands of unpaid soldiery, formerly in the Moncada armies, continued to defy the United States forces. On September 19, about 140 men, led by Salgado, attacked a garrison of 20 marines and 25 Nicaraguan national guardsmen at Telpaneca, killing two marines and one Nicaraguan guardsman. The band retired after several hours of heavy fighting with approximately 20 dead and 50 wounded. Two American aviators were killed during November.

A far more serious engagement began on December 30, virtually on the eve of the Pan American Congress which was about to meet in Havana on January 16. A column of 200 marines and 200 Nicaraguan national guardsmen, pursuing Sandino into the mountains near Quilali, came upon Sandino's men, estimated at about 500, in a narrow pass. During the heavy fighting which continued for almost two hours, five marines were lost and twenty-three wounded, six seriously. One Nicaraguan guardsman was killed and two were wounded. Three days later a second column of marines sent to reinforce the troops engaged in the first battle met a large force of Sandino's men, lost one killed and five wounded. The fighting in both engagements was unusually severe.

On January 3, Secretary of the Navy Wilbur ordered 1,000 United States marines to Nicaragua to suppress Sandino and his followers. Three days later it was announced that Major-General Lejeune, Commandant of the Marine Corps, would leave at once for Nicaragua with the marine reinforcements, increased to approximately 1,400. With the arrival of these troops marine forces in Nicaragua will number just over 2,800.

A tabulation of the losses sustained by American marines in Nicaragua since the Stimson settlement on May 15 shows that twelve marines have been killed, six between May and December, and six during the Quilali encounters. Twenty-eight marines were wounded at Quilali alone. In addition, approximately ten Nicaraguan guardsmen, fighting with the marines, have been killed since May. The losses sustained by Sandino and his followers and by Salgado are unknown. Several newspapers have kept an unofficial count. These place the Nicaraguan losses somewhere between 500 and 700.

SUPERVISION OF 1928 PRESIDENTIAL ELECTIONS

No active preparations for supervision of the presidential elections to be held in the fall of 1928 have been reported from Washington. Under Article 84, Section 2, of the Nicaraguan Constitution the sole right to supervise elections is vested in the Congress. The article reads: "It shall be the duty of Congress to regulate the votes and judge and declare election of president and vice-president of the Republic and to elect these officers in the way provided by the Constitution." President Díaz, according to some Nicaraguans, had no authority under the Constitution to abrogate this right of Congress in favor of supervision by the United States. Although President Díaz has sought to secure the creation of an electoral commission controlled by Americans, the Nicaraguan Congress had not adopted the necessary legislation by January 8, 1927.

That the Liberals as well as the Conservatives realize the importance of securing the good will of the United States is evidenced by the activity of General Moncada, who led the Liberal armies through the course of the

revolution. In October, General Moncada arrived in the United States and promptly got in touch with State Department officials. In answer to inquiries by newspaper correspondents, Secretary Kellogg stated on October 26 that "the question of General José Moncada's eligibility for the Nicaraguan presidency has never been raised and so far as I know he is not disqualified under the Constitution of Nicaragua, or under the Central American treaty." The Secretary added that the United States is going to do its best to see that there is a fair and free election where everybody who is entitled to vote has an opportunity to do so.

THE PRESENT FINANCIAL SITUATION

The effect of the prolonged civil war on the financial situation in Nicaragua has been summarized in a detailed study, *Nicaragua and the United States, 1909-1927*, by Isaac Joslin Cox, recently published by the World Peace Foundation. This report states that on November 18, 1926, the day after President Díaz was recognized by the United States, he solicited a temporary advance of $300,000 from American bankers, to be followed by a permanent loan of $6,000,000. Although both reports were denied the former loan was carried out with the approval of the State Department. At the end of the year 1926, it was estimated that the public debt due to war claims increased C$3,700,000. The military operations of the early part of 1927 added materially to the public debt, although regular interest and sinking fund charges were promptly met. On March 31, 1927, the total indebtedness was estimated at C$10,183,010, instead of C$6,955,203, as it stood the year before,—a net increase of C$3,227,807. The public debt of March 31, 1927 was as follows:

Bonds of 1909 outstanding	C$3,521,010.08
Guaranteed customs bonds of 1918	2,632,000.00
Bonds of 1904 not due	30,000.00
Debts and claims, estimated	4,000,000.00
	C$10,183,010.08

On March 21, 1927, the financial representative of the Díaz Government contracted for $1,000,000 with J. and W. Seligman Company of New York. On the following day, this contract was submitted to the Nicaraguan Congress for approval and on the 23rd was published in Nicaraguan papers.

POSSIBLE REORGANIZATION OF NICARAGUAN FINANCES

On November 15, the State Department announced that "Dr. William W. Cumberland has been designated by the Department of State, at the suggestion of the Nicaraguan Government and with the approval of both parties in Nicaragua, to make a financial and economic survey of Nicaragua and to investigate the country's resources and requirements in order that the Nicaraguan Government and the Department of State may have the benefit of his recommendations regarding the advisability of a loan to provide additional revenues for the payment of claims arising out of the recent revolution, for establishing and maintaining an efficient National Guard to preserve order in the country, for the expenses of holding presidential elections next year and for the construction of the long contemplated and apparently much needed railway between the capital and the Atlantic Coast and for other public works. Dr. Cumberland, who has had wide experience in such matters, will endeavor to ascertain how much money is really needed, how large a loan could and should be contracted for, how the national revenues can best be increased with the least strain and disarrangement of business and commerce, what recommendations can be made for an adequate accounting system and for expending the revenues with a minimum of waste.

"It is well understood that any comprehensive financial program which might be adopted under present conditions would of course have to be approved by both political parties in Nicaragua, and the Nicaraguan Government has already suggested that the proceeds of any loan contracted in the near future should be spent under bi-partisan control.

"Dr. Cumberland's salary and expenses are being paid by the Department of State."

MEXICO

The diplomatic difficulties which arose between Mexico and the United States, because of the attempts of Mexico to make effective the provisions of the now famous Article 27 of the Mexican Constitution of 1917, are described in the *Information Service*, Vol. II, No. 21, December 22, 1926, *The Mexican Land and Oil Law Issue.*

As that report points out, the United States objected on three grounds to the laws passed to make Article 27 effective:

1. The alleged retroactivity of the land law.
2. The alleged retroactivity of the petroleum law of December 31, 1925, and the question of the modification of titles to oil lands acquired prior to May 1, 1917.
3. The insistence of the Mexican Government that foreigners, in order to acquire property rights or concessions to develop sub-soil deposits in Mexico must "agree before the Department of Foreign Affairs to be considered Mexicans in respect to such property, and accordingly not to invoke the protection of their Governments in respect to the same, under penalty, in case of breach, of forfeiture to the Nation of property so acquired."

THE ALLEGED AGREEMENT OF 1923

A misunderstanding between the United States and Mexico arose likewise over an alleged agreement of Mexico at the time when the United States-Mexican Commission convened in Mexico City in May, 1923.

Paragraph 4 of Article 27 of the Mexican Constitution of 1917 states: "In the Nation is vested direct ownership of all minerals or substances . . . . whose nature is different from the components of the land, such as . . . . petroleum and all hydro-carbons—solid, liquid or gaseous." At Mexico City, August 2, 1923, the Mexican Commissioners stated that the following are natural consequences of the political and administrative program which the government has been carrying out:

> ". . . . the Executive has respected and enforced, and will continue to do so, the principles of the decisions of the Supreme Court of Justice in the 'Texas Oil Company' case and the four other similar *amparo* cases, declaring that Paragraph IV of Article 27 of the Constitution of 1917 is not retroactive in respect to all persons who have performed, prior to the promulgation of said Constitution, some positive act which would manifest the intention of the owner of the surface or of the persons entitled to exercise his rights to the oil under the surface to make use of or obtain the oil under the surface, such as drilling, leasing, entering into any contract relative to the subsoil, making investments of capital in lands for the purpose of obtaining the oil in the subsoil, carrying out works of exploitation and exploration of the subsoil and in cases where from the contract relative to the subsoil it appears that the grantors fixed and received a price higher than would have been paid for the surface of the land because it was purchased for the purpose of looking for oil and exploiting same if found; and, in general, performing or doing any other positive act, or manifesting an intention fo a character similar to those heretofore described."

The Mexican Commissioners further stated:

> "The present Executive in pursuance of the policy that has been followed up to the present time . . . . will continue in the future to grant . . . . to owners of the surface or persons entitled to exercise their preferential rights to the oil, who have not performed prior to the Constitution of 1917 any positive act such as mentioned above, or manifested an intention as above specified, a preferential right to the oil and permits to obtain the oil. . . . The above statement in this paragraph of the policy of the present Executive is not intended to constitute an obligation for an unlimited time on the part of the Mexican Government to grant preferential rights to such owners of the surface or persons entitled to exercise their rights to the oil in the subsoil."

The United States maintained that sections of the Mexican petroleum law of December, 1925 violated the engagements made by the Mexican Commissioners in 1923. While it seems clear that the terms of the petroleum law in question differ in certain particulars from the statements made by the Mexican Commissioners, the Mexican Government has never admitted that the signed minutes of the meetings of the United States-Mexican Commission were a binding agreement.

CONTROVERSY OVER THE MEXICAN PETROLEUM LAW

It was over the Mexican petroleum law of December 31, 1925, that the most bitter controversy raged. Article 12 of this law provides that concessions granted by the Executive in accordance with previous laws will be confirmed without any cost whatever, subject to the provisions of this law. Article

14 specifies (1) that rights arising from lands in which works of petroleum exploitations were begun prior to May 1, 1917, and (2) rights arising from contracts made before May 1, 1917, for the express purpose of petroleum exploitation, will be confirmed by means of concessions without any cost, but that the confirmation of these rights may not be granted for more than fifty years, computed in the first case from the time the exploitation works began, and in the second case from the date upon which the contracts were made. Article 15 states: "Confirmation of the rights to which Articles 12 and 14 of this law refer, shall be applied for within the period of one year, computed from the date of the going into effect of this law; that date having passed, said rights shall be considered as renounced and the rights, confirmation of which has not been applied for, shall have no effect whatever against the Federal Government."

With one or two exceptions the principal oil producing companies derived their rights to exploit oil not from governmental concessions but from their full ownership of the surface land and subsoil deposits, or from contracts for petroleum exploitation from the surface owners. Article XIV provided that they accept government concessions to exploit oil in the place of ownership of oil land or leases from owners.

IMPORTANT COMPANIES REFUSE TO COMPLY WITH LAW

The diplomatic controversy had no effect on the oil law, and the period of one year, during which holders of rights to oil lands were required to have their titles confirmed, expired December 31, 1926. While many of the oil companies complied, the most important producers refused to apply for confirmation of their titles to oil lands and it seemed possible last January that the controversy would develop from a theoretic discussion into a serious international dispute.

The non-conforming companies argued that they had acquired title to subsoil deposits as well as to the surface and that this was in accordance with the policy of the Mexican Government from 1884 to 1917, when attempts were being made to attract foreign capital and when ownership of the surface admittedly carried with it ownership of the subsoil deposits.

Of all the companies or individuals (variously estimated from 147 to 442 in number) claiming petroleum titles, only about twenty-two (twenty were American, one was Dutch and one English) failed to accept the Mexican petroleum law and have their titles confirmed. The non-conforming companies occupy only a small per cent of the total acreage for which oil concessions have been asked but they produce a disproportionately large share of the total amount of petroleum produced.

According to figures given out by the Mexican Embassy the oil production from lands operated by companies which failed to comply with the Mexican law, represented, for 1925, 41.6 per cent of the total production, and during the months of January to November, 1926, 44.6 per cent. However, some of the oil companies have applied for confirmation of their titles to a part of their lands while failing to apply for confirmation of all. As the Mexican Embassy admits, it is difficult to establish the exact percentages. Statistics from the Association of Producers of Petroleum in Mexico credit the non-conforming companies with about 70.5 per cent of the total oil production in Mexico during 1926.

Despite the refusal of the largest producing and exporting companies to conform to the Mexican law, the strained relations between the United States and Mexico were less critical than might otherwise have been the case because no properties were confiscated.

On January 4, 1927 President Calles called upon the Department of Industry, Commerce and Labor to furnish the Attorney-General with the names of the individuals or companies that had not applied before January 1, 1927 for confirmation of their rights under the petroleum law. At about the same time, on January 11, Foreign Minister Saenz stated formally that in the enforcement of the new laws Mexico would not fail to recognize any rights legitimately acquired.

On January 26 it was reported that the Mexican Government had cancelled 149 drilling permits and ordered suspension of drilling operations on 25 wells because of failure of operating companies to comply with the oil law.

This cancellation of drilling permits gave the protesting companies a definite grievance to carry before the Mexican courts and numerous injunctions were sought to prevent the Mexican authorities from enforcing the new petroleum laws and its regulations. A number of temporary injunctions were granted.

RELATIONS SHOW LITTLE IMPROVEMENT DURING 1927

The intervention of the United States in Nicaragua late in 1926 temporarily shifted public attention from the Mexican impasse. On January 8, 1927, however, President Calles had suggested that if necessary he would be willing in principle to have the oil dispute settled by arbitration, although such a procedure involved a peril, because, he said, "If a country exercising its sovereignty passes laws, laws which the nation believes are necessary for the well-being of the people, it is very dangerous for it to submit these laws to the wishes of other people."

Sentiment for arbitration gained momentum in the United States and culminated on January 25 in the unanimous adoption in the Senate of the so-called Robinson Resolution favoring the submission to arbitration of "the controversies with Mexico relating to the alleged confiscation or impairment of the property of American citizens and corporations in Mexico, the arbitration agreement to provide for protection of all American property rights pending the final outcome of the arbitration."

President Coolidge said of this resolution, in April, that everybody favors arbitration when the principle is arbitrable but in the dispute with Mexico he saw grave difficulties in formulating a question which the two governments would agree to submit to such a tribunal.

> "The principle," he said, "that property is not to be confiscated and the duty of our government to protect it are so well established that it is doubtful if they should be permitted to be questioned. Very likely Mexico would feel that the right to make a constitution and pass laws is a privilege of her sovereignty which she could not permit to be brought into question. It has therefore seemed more likely to secure an adjustment through negotiation."

President Calles was later reported as agreeing with the substance of this statement of President Coolidge.

In the meantime relations between the United States and Mexico had not been improved by Secretary of State Kellogg's testimony before the Senate Committee on Foreign Relations in January. His testimony had to do with the so-called "spectre of a Mexican-fostered Bolshevist hegemony" which, according to a newspaper report emanating from the State Department in November, 1926, was "intervening between the United States and the Panama Canal."

In February the press reported that a secret note had been sent by the State Department to Mexico, and the subsequent sudden departure of Ambassador Tellez for Mexico gave rise to rumors that a new crisis between the two countries had led to his recall. The announcement by the State Department in March that the treaty between the United States and Mexico for the mutual prevention of smuggling would not be renewed at the expiration of its first year of existence was likewise regarded by the press as having a direct relation to the existing friction between the two countries. Although this treaty was negotiated primarily to prevent alcoholic liquors from being smuggled into the United States, it had come to have a greater significance owing to the self-imposed arms embargo by which the United States undertook not to export arms to Mexico. Reports from Mexico City showed that many Mexicans feared that the termination of the smuggling treaty was an indication that the United States had reached the limit of its patience and was ready to permit the shipment of arms to opponents of the Calles government.

Relations between the two countries were improved, however, when it was seen that the arms embargo was not lifted; and a reiteration by President Calles towards the end of April that his government did not contemplate confiscating American

property created a feeling of optimism as to the possible results of the dispute over the land and oil laws.

No important developments were recorded during the summer and autumn though a number of events attracted some attention—the Mexican Government boycott of American goods purchased in the United States; the resignation of the United States Ambassador, James R. Sheffield; the departure of the Mexican members of the General Claims Commission, notwithstanding the fact that both governments had just consented to the extension of the life of the Commission for two years.

The appointment of Mr. Dwight W. Morrow as the Ambassador to Mexico was viewed optimistically in both Mexico and the United States. Mr. Morrow's sympathetic understanding and tact quickly placed relations between the two countries on a more cordial plane. President Calles, late in October, cancelled the boycott decree issued in May forbidding Government departments to make purchases in the United States.

THE MEXICAN PETROLEUM COMPANY DECISION

The decision of the Mexican Supreme Court in November reaffirming the granting of an injunction (Amparo) in the case of the Mexican Petroleum Company was generally regarded by the American press as an indication that the Mexican Government was yielding to the contentions of the United States as to the retroactivity and alleged confiscatory features of the Mexican oil law of December 31, 1925. It has been suggested that the decison was influenced by "political" considerations, but a study of the litigation seems to show that the decision was based strictly upon the merits of the particular case. The decision seems to establish only that no drilling permits shall be revoked because of failure of any company to apply for confirmation of its title to rights acquired before May 1, 1917 for a term longer than fifty years. The reason given by the Court is that a company with rights previously acquired for a term longer than fifty years could not apply under the provisions of the Mexican petroleum law of December 31, 1925 for a confirmation of its title without automatically limiting its pre-existing rights as to time. The order of the Department of Industry, Commerce and Labor revoking the drilling permits of the Mexican Petroleum Company was, therefore, held to be invalid.*

The Mexican Petroleum Company alleged also that its rights were attacked because Article 4 of the petroleum law of 1925 declares that only "Mexicans and *corporations . . . . constituted in conformity* with Mexican laws," and "foreigners" (by complying, in addition, with the provisions of Article 27 of the constitution) may obtain petroleum concessions, thus excluding foreign corporations, such as the complainant; furthermore, that Article 14 of the petroleum law provides that certain rights will be confirmed by means of concessions (i. e., by the substitution of a government concession for free ownership or leasehold); that Article 14 thus violates the Mexican Petroleum Company's rights, because, even supposing that a concession could be granted to it (a foreign corporation not organized in conformity with Mexican laws) the rights of the said company already exist from previous titles and "cannot be derived from a future concession or from a permit or authorization which the executive may grant to it."

In other words, the Mexican Petroleum Company alleged that it was called upon by Articles 14 and 15 of the Mexican petroleum law to exchange (under penalty of forfeiture of rights) its titles to petroleum lands for government concessions which, from the legal nature of a concession, would not confirm pre-existing rights but would create new rights under different conditions because the government would thereby become a party; that, moreover, the same petroleum law of 1925 provided in Article 4 that companies such as the Mexican Petroleum Company, not incorporated in conformity with Mexican laws, could not obtain concessions.

It would seem from a close study of the decision that the court decided the case upon the question of the legality of requiring a limitation of the complainants'

*The opinion delivered in the Mexican Petroleum Company decision has not been signed as this goes to press, though copies of the oral transcript have been handed out by the court.

rights as to time rather than on the matter of the legality of forcing an exchange of concessions for pre-existing rights. However, on the latter point the court was of the opinion that Article 14 of the petroleum law referred only to the recognition of acquired rights "without any substantial alteration; so that the requirement of confirmation is only a formality" which recognizes, where "positive acts"* have been performed, the pre-existing rights "by confirmation which does not modify it."

In a strict sense this decision does not declare the pertinent provisions of the oil law unconstitutional. The decision holds merely that the order of the Department of Industry, Commerce and Labor revoking drilling permits of the Mexican Petroleum Company violates the constitution.

PROPOSED AMENDMENT TO PETROLEUM LAW

On December 27, 1927 it was reported that President Calles had introduced a measure in the Chamber of Deputies for the purpose of modifying Articles 14 and 15 of the Mexican Petroleum Law of 1925 in accordance with the findings of the recently delivered opinion of the Mexican Supreme Court in the Mexican Petroleum Company case.

The proposed modification passed both Houses of the Mexican Parliament and went into effect on January 11, 1928, with the addition of a penalty clause, similar to that in Article 15 of the 1925 oil law. The modification consists in a provision that rights derived from lands, concerning which the "positive acts" referred to in the Petroleum Law of 1925 have been performed, shall be confirmed by means of concessions without limitation as to time when in favor of the surface owners, and for the term of the existing contract in other cases. This amendment supersedes the provisions of Article 14 of the law of 1925 by which no such rights were confirmed for a period of more than fifty years computed from the time oil exploitation began or from the date upon which the contracts were made. At the same time a new period of one year from the day following the publication of these modifications is granted for the filing of petitions for the confirmation of rights.

*See page 349.

CONTENTIOUS QUESTIONS REMAINING

It is to be noted that the decision of the Mexican Supreme Court in the Mexican Petroleum Company case and the recently adopted amendments to the Mexican Petroleum law of 1925 do not solve all the differences between the United States and Mexico. The requirement of the oil law of 1925, that titles to oil deposits based on full ownership or on contracts with surface owners for the purpose of exploitation of oil be replaced by concessions to be granted by the Mexican Government, remains in force. Likewise the "positive act" features of the oil law remain effective, being upheld both in the opinion of the Mexican Supreme Court and in the recent amendments to the oil law.

Quite naturally the constitutional requirement that foreigners attaining property rights or concessions in Mexico agree to be considered Mexicans in respect to such property, and the alleged retroactivity of the agrarian law were not before the court in the Mexican Petroleum Company case. They remain two more of the unsettled questions between the United States and Mexico.

As far as the alleged confiscatory or retroactive clauses of the constitution are concerned, the issue is between the exclusive right of Mexico as a sovereign state to regulate matters pertaining to the acquisition and retention of property of every kind within its territory and the alleged right of the United States under international law to protect the property of its citizens from retroactive and confiscatory acts of the foreign state in which the property is situated. The question may be reduced to this: Even if the constitution of a country is retroactive and confiscatory in its application, what rule of international law is violated when it affects the property of aliens in the same manner as it affects the property of nationals of the country adopting such a constitution?

There is a distinction, however, between the question of whether a provision of a national constitution is confiscatory under international law and the question of whether a given national law is confiscatory and therefore unconstitutional under a constitution which prohibits confiscatory measures.

Although both kinds of questions arise among the matters still in dispute between the United States and Mexico, only questions of the latter category can be settled in the Mexican Courts. A study of the outstanding differences which remain with regard to the rights of foreign petroleum companies in Mexico shows that most of them involve the constitutionality of provisions of the Mexican Petroleum Law of 1925, rather than the question of whether any provisions of the National Constitution are retroactive and confiscatory under international law.

PANAMA

Interest in the relationship of the United States to the Republic of Panamá has been increased lately by the difficulty the two countries have found in reaching an agreement on the question of just what rights the United States has over the Canal Zone. At present, relations between the United States and Panamá are based on the Convention of 1903 for the construction of a ship canal.

The events leading to the birth of the Republic of Panamá are well known and need but a reference here. On August 12, 1903, Colombia refused to grant the United States a concession for constructing a canal across the Isthmus of Panamá. The main Colombian objections to the proposed agreement were that its stipulations would bring Colombian sovereignty over the proposed Canal Zone in doubt and that the compensation proposed by the United States was too small.

On November 3, 1903 the Colombian province of Panamá revolted and on November 11 the United States recognized the independence of the Republic of Panamá. By November 18, a treaty satisfactory to the United States was signed in Washington. Whether the United States Government or any of its officials were implicated in the revolution is still a subject of discussion but that the revolution was received with satisfaction by American officials is beyond doubt.

By the Convention of 1903 the United States (Article I) "guarantees and will maintain the independence of the Republic of Panamá." In Article II "the Republic of Panamá grants to the United States in perpetuity the use, occupation and control of a zone . . . . for the construction, maintenance, operation, sanitation and protection" of a canal. The full text of Article II is as follows:

> The Republic of Panamá grants to the United States in perpetuity the use, occupation and control of a zone of land and land under water for the construction, maintenance, operation, sanitation and protection of said Canal of the width of ten miles extending to the distance of five miles on each side of the center line of the route of the Canal to be constructed; the said zone beginning in the Caribbean Sea three marine miles from mean low water mark and extending to and across the Isthmus of Panamá into the Pacific Ocean to a distance of three marine miles from mean low water mark with the proviso that the Cities of Panamá and Colon and the harbors adjacent to said cities, which are included within the boundaries of the zone above described, shall not be included within this grant. The Republic of Panamá further grants to the United States in perpetuity the use, occupation and control of any other lands and waters outside of the zone above described which may be necessary and convenient for the said Canal or of any auxiliary canals or other works necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said enterprise.
>
> The Republic of Panamá further grants in like manner to the United States in perpetuity all islands within the limits of the zone above described and in addition thereto the group of small islands in the Bay of Panamá, named Perico, Naos, Culebra and Flamenco.

Article III, in explaining just what rights of use, occupation and control are granted by Panamá, says:

> The Republic of Panamá grants to the United States all the rights, power and authority within the zone mentioned and described in Article II

of this agreement and within the limits of all auxiliary lands and waters mentioned and described in said Article II which the United States would possess and exercise if it were the sovereign of the territory within which said lands and waters are located to the entire exclusion of the exercise by the Republic of Panamá of any such sovereign rights, power or authority.

Other articles provide (Article VII) that "the Republic of Panamá grants to the United States within the limits of the cities of Panamá and Colón and their adjacent harbors and within the territory adjacent thereto the right to acquire by purchase or by the exercise of the right of eminent domain, any lands, buildings, water rights or other properties necessary and convenient for the construction, maintenance, operation and protection of the Canal and of any works of sanitation . . . . which, in the discretion of the United States may be necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said Canal and railroad," and (Article IX) ". . . . . the United States shall have the right to make use of the town and harbors of Panamá and Colón as places of anchorage, and for making repairs, for loading, unloading, depositing, or transshipping cargoes either in transit or destined for the service of the Canal and for other works pertaining to the Canal."

Article XIII, which gave rise to two fundamentally divergent interpretations, is as follows:

"The United States may import at any time into the said zone and auxiliary lands, free of custom duties, imposts, taxes, or other charges, and without any restrictions, any and all vessels, dredges, engines, cars, machinery, tools, explosives, materials, supplies, and other articles necessary and convenient in the construction, maintenance, operation, sanitation and protection of the Canal and auxiliary works, and all provisions, medicines, clothing, supplies and other things necessary and convenient for the officers, employees, workmen and laborers in the service and employ of the United States and for their families. If any such articles are disposed of for use outside of the zone and auxiliary lands granted to the United States and within the territory of the Republic, they shall be subject to the same import or other duties as like articles imported under the laws of the Republic of Panamá."

In Article XIV the United States agrees to pay Panamá "as the price of compensation for the rights, powers and privileges granted in this convention" the sum of $10,000,000 and an annual payment "during the life of this convention" of $250,000.

The Minister of Panamá to the United States, the Hon. R. J. Alfaro, has charged* that the Convention of November 18, 1903 was rushed through in a hasty manner and "signed some time around midnight on the 18th of November in the private residence of Mr. Hay two or three hours before the arrival of the Panamanian Commissioners in Washington, as if an endeavor was being made to the effect that no Panamanian Plenipotentiaries should negotiate the Canal Treaty" and that the treaty between Panama and the United States was less advantageous to Panamá, and contained more concessions in favor of the United States than were found in the proposed treaty between the United States and Colombia.

In spite of these charges the people of Panamá felt that any concessions they might make to the United States would be more than compensated by increased welfare, progress and commercial prosperity which would accrue to them as a result of the construction of the Canal.

CONFLICTING INTERPRETATIONS OVER TREATY OF 1903

Conflicts over the interpretation of the Convention of 1903 arose almost immediately. The people of Panamá were greatly alarmed, according to Alfaro, when the United States took over operation of the ports of Ancón and Cristobal, the ports adjacent to the cities of Panamá and Colón "which made these two cities without ports and made them dependent upon the terminal ports of the Canal for foreign commerce." Article II of the Convention of 1903 specifically excluded the harbors of Ancón and Cristobal (the harbors adjacent to the cities of Panamá and Colón) from the Canal Zone. And although Articles VII and IX gave the United States certain rights in the harbors, the people of Panamá had never understood,

*Note of Minister Alfaro to Secretary of State Hughes, January 3, 1923.

according to Mr. Alfaro, "that, according to the Canal Treaty, Panamá was to lose the two ports through which her import and export commerce was carried on."

Furthermore, in June, 1904, the Governor of the Canal Zone declared the protectionist tariff known as the Dingley Tariff to be in force in the Canal Zone and United States postoffices and customs houses were opened. Panamá protested vigorously against these measures as being violations of the Canal Treaty.

THE TAFT AGREEMENT

As a result, Mr. William Howard Taft, Secretary of War, was sent to Panamá and negotiated with the Panamá Government the so-called Taft Agreement of December 3, 1904. The form of this agreement was somewhat unusual. Mr. Taft, as Secretary of War, drafted, after full conferences with the President of Panamá, an executive order which the President of the United States had given him the authority to sign and promulgate. To this duly authorized executive order, unilateral in form, the President and Secretary of Government and Foreign Affairs of Panamá "concurred." The pertinent provisions of the Taft Agreement were:

1. No goods, wares, or merchandise shall be imported into Ancón or Cristobal except (1) those described in Article XIII of the Treaty of 1903 between the United States and Panamá; except (2) those in transit across the isthmus for a destination without the isthmus; and except (3) coal and crude mineral oil for fuel purposes to be sold at Ancón and Cristobal, said coal and oil to be admitted to those ports duty free.*

   Provided: that this order be inoperative until Panamá reduce the duty on articles of certain enumerated classes.

2. No import duties, tolls or charges of any kind shall be imposed by the authorities of the Canal Zone upon goods, etc., and persons passing from Panamá into the Canal Zone or reciprocally from the Canal Zone into Panamá by the authorities of Panamá.

3. Stamps of the Republic of Panamá surcharged "Canal Zone" shall be used.

*This clause led to a further difference of interpretation. Did the United States agree therein not to supply ships passing through the Canal with any articles except coal and fuel oil?

Other executive orders on the part of the United States and decrees on the part of Panamá followed until 1912 when the Panamá Canal Act was enacted by the United States Congress, August 24, 1912, (37 Stat. L. 560) providing: "That all laws, orders, regulations, and ordinances adopted and promulgated in the Canal Zone by order of the President for the government and sanitation of the Canal Zone and the construction of the Panamá Canal are hereby ratified and confirmed as valid and binding until Congress shall otherwise provide . . . ."

Thus the relations between the United States and the Republic of Panamá, in so far as they were not based on the Convention of 1903, seemed to be based on an understanding rather than on any agreement of a legal or conventional nature. The "agreement," moreover, had been "ratified" by both houses of Congress rather than by the Senate alone and so under the constitutional law of the United States the President could not terminate the agreement without authorization from both houses of Congress or through the making of a treaty.

On the expressed ground that the Taft agreement—intended as a temporary arrangement to cover the period of the construction of the canal—had served its purpose and was no longer adequate for the regulation of questions arising between the Canal Zone authorities and the Government of Panamá, the State Department asked the President of the United States to request Congress to authorize the abrogation of the agreement, and by a Joint Resolution approved February 12, 1923, Congress complied. Under the authorization of this Resolution, President Coolidge terminated the Taft agreement by an executive order on May 28, 1924. This put relations between the two countries on the unsatisfactory basis existing before the adoption of the Taft agreement.

DISSATISFACTION EXPRESSED BY PANAMANIANS

In the meantime dissatisfaction grew in Panamá. The people of Panamá had expected a great boom in their territory owing to the construction of the Canal, but disil-

lusionment soon set in. They complained that not only had the construction of the Canal not benefited Panamanian commerce but that commerce had actually been impaired by the development of the United States commissaries which took up all the trade of the Canal Zone and winked at considerable smuggling. These commissaries were stores operated by the Panamá Railroad Company to supply food and other necessities to residents in the Canal Zone.

COMMISSARY SYSTEM IS CHIEF GRIEVANCE

Under the provisions of Article XIII of the Convention of 1903 one commissary was established in 1904. It was run upon a small scale and afforded little competition to the commercial interests of the Isthmus. With the vast increase in the number of those employed to construct the Canal the one commissary was found insufficient. The local commercial establishments within and without the Canal Zone were unable to satisfactorily supply the needs of the thousands of employees who worked in the construction of the Canal, and many new commissaries sprang up. According to the Panamanians, the commissaries supplied not only the employees but other inhabitants of Panamá as well, under-selling their Panamá competitors. The commissaries being operated by the Panamá Railroad Company (which is owned by the United States Government) were relieved of paying duty on materials and provisions "necessary and convenient for the officers, employees, workmen, and laborers in the service and employ of the United States and for their families."

The commercial activities of the United States in the Canal Zone through the Panamá Railroad Company did not cease with the completion of the Canal. "The Panamá Railroad Company," said the Panamanian Minister, the Hon. R. J. Alfaro, in a note to Secretary of State Hughes, "operates commissaries, livery stables, garages, baggage transportation within the cities of Panamá and Colón, dairies, poultry farms, butcheries, packing and refrigerating plants, soap factories, laundries, plants for roasting and packing coffee, sausage and canned meat factories, iron works, carpenter shops and cooperages, besides its main and colossal business of collecting rents from the lots which it possesses in the cities of Panamá and Colón."

One more grievance of the Panamanians was that the commissaries monopolized trade with the vessels passing through the Canal, being able to undersell the native merchants because the latter were forced to pay import duties on goods brought into Panamá while the commissaries were exempt from such taxes.

Discouraging as these conditions were to the people of Panamá, their alarm was increased when they heard the United States was going to abrogate the so-called Taft Agreement; they feared that the Canal would enter more into business enterprises than in the past.

QUESTION OF SOVEREIGNTY NOT INVOLVED

Whether Panamá or the United States has the right to control trade in the Canal Zone is said to involve the question of sovereignty. If the United States is sovereign in the Canal Zone the charge of Panamá that the United States has exceeded its right by entering into business in the Zone for purposes other than the "construction, maintenance, operation, sanitation and protection of the Canal" is beside the point.

The Panamanians maintain, however, that the Canal Zone has never been sold, ceded or conveyed in fee simple by the Republic of Panamá to the United States; that what has been granted to the United States is the use, occupation and control of the Zone for the specific purpose of the construction, maintenance, operation, sanitation and protection of a canal; and that any commercial activities in the Canal Zone engaged in by the United States or its so-called subsidiaries, such as the Panamá Railroad Company, are illegal if they have not this purpose. That, in spite of this, the United States Canal Zone authorities have acted as though the United States were sovereign in the Zone, to the detriment of Panamanian merchants.

Technically, the question of sovereignty is not involved. Article III of the Convention of 1903 states specifically that "the Republic of Panamá grants to the United States all the rights, power and authority within the zone mentioned . . . . which the United States would possess and exercise if it were the sovereign of the territory . . . ." This is clear: sovereignty remains in Panamá, but Panamá has delegated to the United States the exercise of certain sovereign rights.* The confusing discussion about the sovereignty of the Canal Zone is in reality a discussion of what powers the United States was granted in Article III. As noted above, Article II grants the use, occupation and control of the Zone to the United States for specific purposes—the construction, maintenance, operation, sanitation and protection of a canal. In Article III, however, Panamá grants the United States all the rights, power and authority within the Zone which the United States would have if it were sovereign, i. e., without specific limitation as to construction and maintenance of a canal.

DISPUTE INVOLVES EXTENT OF U. S. RIGHTS

The real question then does not concern the sovereignty of the Zone but is whether it was the intention of Panamá to grant rights in Article III without limitation as to purpose. The Canal Zone authorities have acted, say the Panamanians, on the theory that their rights under Article III were unrestricted. It has been pointed out, *contra,* that in the interpretation of Article III, the entire treaty, its fundamental purpose, its other provisions, as well as contemporary utterances of those engaged in making the treaty, should be considered.

An analysis of the treaty shows that its almost single object is the construction, maintenance and operation of a canal. To interpret Article III as granting the United States rights and powers in the Canal Zone other than those relating to this main object would give Article III a purpose quite different from the purpose of all the other articles of the treaty.

*For the distinction between sovereignty and the exercise of sovereign rights, cf. W. W. Willoughby, *The Fundamental Concepts of Public Law,* p. 74.

Turning to a contemporary statement as to the purpose of the Treaty of 1903, Secretary of War William Howard Taft, said on November 28, 1904:

> "I concur, and the Government of the United States concurs, in the construction that all these rights [i. e., the rights granted in the Panamá Treaty of 1903] were given us *solely* for the purpose of enabling us to *construct, maintain,* and *operate the canal.* It is not the motive that governed the conferring of those rights, but the extent of the rights necessary to enable us to secure this common object, that has been in controversy."

It was the wish of both Panamá and the United States that the points in dispute between them be cleared up. Panamá felt particularly that "the question of the commissaries with special reference to (a) introduction of articles of luxury; (b) of smuggling; and (c) sales to ships crossing the Canal" and the question of the legal status of the Panamá Railroad should be settled. Moreover, as Mr. Alfaro declared, the Canal is now constructed and Panama felt that: "Consequently the moment has now arrived for stipulating or declaring jointly and in a formal manner that the United States has taken over all the land and property necessary for the construction, operation, maintenance, sanitation and protection of the Canal."

NEGOTIATIONS FOR A NEW TREATY

Negotiations for a new treaty to replace the Taft Agreement, which was terminated in 1924, were commenced and a new treaty between Panamá and the United States was signed at Washington, July 28, 1926, and submitted by President Coolidge to the Senate where it was referred to the Committee on Foreign Relations, December 9, 1926.

Article IV of the proposed new treaty provides:

> "In order to strengthen the friendly relations which have so fortunately existed, between the United States and Panamá the United States agrees in perpetuity as follows:
>
> 1. With the exception of sales to ships which the United States will continue to make as heretofore, the sale of goods imported into the Canal

Zone by the Government of the United States shall be limited by it to the officers, employees, workmen and laborers in the service or employ of the United States or of the Panamá Railroad Company and the families of all such persons, and to contractors operating in the Canal Zone and their employees, workmen and laborers and the families of all such persons, and to such other persons, as . . . may be permitted by the United States to dwell in the Canal Zone, and who actually do dwell in said zone, it being understood that guests of the hotels operated by the Panamá Canal or the Panamá Railroad Company are not included unless they come under one of the other classes to which such sales may be made. . . .

2. The Government of the United States will continue to cooperate in all proper ways with the Republic of Panamá to prevent smuggling into the Republic of goods purchased in the commissaries.

3. The United States will not permit the establishment in the Canal Zone of private business enterprises other than those existing therein at the time of the signature of the Treaty. . . . "

Article XI, which has aroused considerable discussion, says in part:

"The Republic of Panamá agrees to cooperate in all possible ways with the United States in the protection and defense of the Canal. Consequently the Republic of Panamá will consider herself in a state of war in case of any war in which the United States should be a belligerent. . . .

The civil and military authorities of the Republic of Panamá shall impose and enforce all ordinances and decrees required for the maintenance of public order and for the safety and defense of the territory of the Republic of Panamá during such actual or threatened hostilities and the United States shall have the direction and control of all military operations in any part of the territory of the Republic of Panamá.

For the purpose of the efficient protection of the Canal, the Republic of Panamá also agrees that in time of peace the armed forces of the United States shall have free transit throughout the Republic for manoeuvres, or other military purposes, provided, however, that due notice will be given to the Government of the Republic of Panamá every time armed troops should enter her territory. It is understood that this provision for notification does not apply to military or naval aircraft of the United States."

The question of the extent of the rights of the United States under the 1903 treaty is not settled in the new treaty. On the contrary, Article II of the new treaty says of certain land and water areas that "the use, occupation and control" of them "are hereby granted to the United States in perpetuity as part of the Canal Zone and consequently the provisions of Article III of the said Treaty of November 18, 1903, shall apply thereto." Thus, instead of determining the meaning of Article III of the 1903 Treaty it is simply made to apply to new territory granted under the new treaty.

In January, 1927, the National Assembly of Panamá voted to request the executive to reopen negotiations on the treaty and a commission was sent to Washington. Renewed negotiations failed to lead to any final accord, so the proposed treaty remains unratified by either party. Washington officials insist that revisions under consideration are of a minor character not affecting the substance of the treaty but refuse to disclose exactly what is under discussion.

In the meantime feeling against the United States increased in Panamá and one prominent Panamanian stated that the principal argument in favor of the proposed treaty was that it is the most that could be obtained from the United States Government.

The European press seemed more excited about Article XI than was Panamá. Dr. Morales, former Foreign Minister of Panamá, declared before the Eighth Assembly of the League of Nations that that clause was proposed by Panamá herself and that at no time during the negotiations was there the slightest tendency, "despite the fact that the negotiations took place between one of the most powerful and one of the weakest countries in the world . . . . to impose onerous or humiliating conditions upon Panamá."

At the same meeting of the Assembly Dr. Morales reiterated before the League of Nations the Panamanian position that Panamá is sovereign over the Canal Zone and hoped that in further negotiations the United States would recognize this position. If this should not be the case, he concluded, there still remained the resource of submitting the dispute to an impartial court for an equitable and final decision.

The State Department lost no time in making it plain that the League of Nations had nothing to do with the United States' control of the Canal Zone.

DOMINICAN REPUBLIC

Relations between the United States and the Dominican Republic are governed at the present time by the Convention of October 26, 1924, supplemented by the Convention of Ratification, proclaimed December 8, 1925. These Conventions formally brought to an end the seven-year military occupation during which the Dominican Republic was governed by officers of the United States Navy.

In the main, the Convention of 1924 follows the one of 1907, having for its principal object the authority for a bond issue to be secured by a first lien on the customs revenue of the country. It is an arrangement by which the collection and disbursement of Dominican customs are controlled by a General Receiver of Customs, appointed by the President of the United States. The second Convention makes binding upon the Dominican Government all the executive orders and resolutions promulgated during the military occupation.

PROVISIONS TO THE CONVENTION OF 1907

The Convention of 1907 came as a result of intervention on the part of the United States following threats by various European countries, notably Italy, France and Belgium, to take over several custom houses for the collection of monies due their citizens on loans to the Dominican Government. Through the efforts of the United States, foreign bondholders were persuaded to content themselves with approximately half of the amounts they claimed, and a new bond issue to cover these payments was floated by American bankers. The preamble of the 1907 Convention reads in part:

> Whereas the whole of said plan is conditioned and dependent upon the assistance of the United States in the collection of customs revenues of the Dominican Republic and the application thereof so far as necessary to the interest upon and the amortization and redemption of said bonds, the Dominican Republic has requested the United States to give and the United States is willing to give such assistance.

The Convention further regulates the distribution and method of application of the sums collected, and provides in Article III that:

> Until the Dominican Republic has paid the whole amount of the bonds of the debt, its public debt shall not be increased except by previous agreement between the Dominican Government and the United States. A like agreement shall be necessary to modify the import duties. . . .

UNITED STATES OCCUPATION, 1916-1924

For nine years this was the status of relations between the two governments, until in 1916 a rebellion broke out against the constituted government, and American marines, at the request of President Jimenez, took control of Santo Domingo City, driving out the rebel leader. During the period of unrest which followed, the President resigned and a provisional government was set up. As the new government refused to ratify a treaty with the United States, providing for complete financial control and the establishment of a constabulary to replace the army, it was not recognized by the American Government. Finally, by the proclamation of military occupation on November 28, 1916, the United States assumed the full control it desired.

While the Dominican Republic had not defaulted on any of its external obligations, nor increased them, during this period, it had increased its internal debt by approximately $7,000,000. The American Government pointed out that none of this additional sum had been used for permanent improvements, but had been used either for graft or for the suppression of revolutions. It was in order to remedy this situation, therefore, that the American Government proposed: first, to disband the army and replace it by a constabulary officered by Americans; and secondly, to place all revenues, internal as well as custom-house receipts, under the control of the Receivership established by the Convention of 1907. The President and all the members of the Cabinet left the Government Palace in sign of protest against military occupation, and the several departments of the Dominican Government were placed in charge of officers of the American Navy.

On July 11, 1922, the Department of State announced through the press a plan for the termination of the military government.

Growing out of a conference attended by a delegation of prominent Dominican leaders among whom were representatives of three political parties, a summary of a program was agreed upon, and on October 21 a provisional president, selected by representatives of the Dominican people, was duly installed. As agreed upon at Washington, he was to hold office during a limited time in order to carry out the proposed plan of evacuation during which time the necessary governmental machinery would be re-organized for the establishment of a Dominican constitutional government. The executive officers of the Military Government were to remain on duty in Santo Domingo for the purpose of assisting the provisional government in taking over the affairs of state.

ATTITUDE OF SANTO DOMINGO

This plan, however, aroused considerable resentment in Santo Domingo as it was conditioned upon the ratification by the Dominican Government of all the acts of the military occupation. It was not until June 12, 1924 that a Convention of Ratification was signed at Santo Domingo by which the Dominican Government recognized,—

> . . . . the validity of all the Executive Orders and Resolutions promulgated by the Military Government, and published in the official gazette; which may have levied taxes, authorized expenditures or established rights on behalf of third persons, and the administrative regulations issued and contracts which may have been entered into in accordance with those orders or with any law of the Republic.

A list of over 600 of these orders followed.

The significance of this ratification lies in the fact that the pledges of the Military Government to bondholders subscribing to the various loans it authorized were thus carried out. Despite the provisions of Article III of the Treaty of 1907, which stipulated that "until the Dominican Government has paid the whole amount of the bonds of the debt, its public debt shall not be increased except by previous agreement between the Dominican Government and the United States," these loans were contracted solely on the authority of the Military Government. Furthermore, the inclusion of the following statement in the bonds was authorized by the Secretary of State of the United States:

> The acceptance and validation of this bond issue by any government of the Dominican Republic as a legally binding and irrevocable obligation of the Dominican Republic is hereby guaranteed by the Military Government of Santo Domingo. . . .

Thus, as the Dominican people view it, the practical effect of Military Occupation was to extend the term of Dominican indebtedness and, as a consequence, to extend the duration of the American Receivership in Santo Domingo, which, according to Article I of the Convention of 1924, "shall collect all the customs duties . . . . until the payment or retirement of any and all bonds issued by the Dominican Government . . . ."

In furtherance of the plan agreed upon by the State Department, elections were held on March 15, 1924 and four months later the constitutional government was inaugurated. Control of all fiscal and administrative affairs again was taken over by the Dominican Republic with the exception of the Customs. This service, together with the service of the outstanding bonded indebtedness, which constitutes a lien on the customs revenue, is administered by officials named in pursuance of the American-Dominican Convention. Subsequent to the change in government control, the withdrawal of the marine force of occupation began. The last of the troops left the Republic on September 17, 1924.

ECONOMIC AND FINANCIAL DEVELOPMENTS

According to the annual report of the Customs Receivership, the military occupation of Santo Domingo brought about a great development of the country's resources; greater land areas have been put under cultivation both by local and foreign interests; capital has been attracted by the prospects of peace and safety; the earning power of the people has been extended and the purchasing power increased. This last can be measured by the greater consumption of the necessities and comforts of life, most of which are imported. The foreign trade advanced from an aggregate of less than $10,000,000 in 1905 to more than $48,000,000 in 1926.

As regards finance, the American administration has been most efficient. By December, 1926, through the application of greatly increased customs revenues, the following loans were liquidated: (1) the $20,000,000 loan of 1908, contracted for the purpose of consolidating all previous loans; (2) the $1,500,000 loan of 1913; and (3) the 1918 loan of $4,161,300 issued in payment of the floating debt in the process of adjudication by the Dominican Claims Commission of 1917. There are now only three Dominican loans outstanding to the amount of approximately $15,000,000 which, among Latin American loans, are rated in Moody's second only to the Argentine issues.

The opinion of a large section of the Dominican people is expressed in the following excerpt from an article by Jacinto Lopez, appearing in 1925:*

> "It is believed that the loans of 1908 and 1918 will be liquidated before 1929. . . .
>
> "But the American military occupation took care to prolong the life of the Convention (of 1907) not only by authorizing a loan in 1922 for public works, but also by stipulating that payments to the sinking fund should not begin until 1930, which postpones the expiration of the Convention until 1936 more or less. . . .
>
> "The world will not be satisfied with the (American) explanation that the Dominican people, simply because of a loan for public works, consented to continue living under a rule which implies a tremendous sacrifice of dignity and of national sovereignty, and which constitutes a mortal threat to its existence."

HAITI

The experiences of Haiti and the Dominican Republic have in general been rather similar, with the American occupation of Haiti preceding the military government of Santo Domingo by only one year.

Between 1886 and 1915 there were twelve Presidents in Haiti, no one of whom served his full term of seven years. Of these twelve, four were killed and six driven from office. In 1915 the country was in such an unsettled condition, politically and financially, that when, on July 28, President Guillaume was assassinated and two legations mobbed, although no foreigners were injured, American marines were landed in Port-au-Prince for their protection.

In 1914 the United States had proposed a treaty with Haiti similar to the one with the Dominican Republic, but the suggestion met with little success. On August 10, 1915 the occasion again seemed opportune and the following telegram was sent by the Secretary of State to Chargé Davis:

> "In order that no misunderstanding can possibly occur after election, it should be made perfectly clear to candidates as soon as possible and in advance of their election that the United States expects to be entrusted with the practical control of the customs and such financial control over affairs of the Republic of Haiti as the United States may deem necessary for an efficient administration."

Following this line of action, recognition was withheld from the new government until a treaty with the United States should be ratified. The Haitian Congress held out as long as it could, but finally succumbed on November 11, after a proclamation of martial law by Rear-Admiral Caperton on September 3.

This treaty allowed more control over internal affairs than did the Convention with the Dominican Republic. In addition to supervision of Haitian finance, American control was extended over the constabulary, agriculture, sanitation and public improvements of the Republic. The treaty provided further for the arbitration of pending pecuniary claims and the aid of the United States for the preservation of Haitian independence and "the maintenance of a government adequate for the protection of life, property and individual liberty."

As originally drawn up, the duration of the treaty was for ten years, and for a second term of ten years, "if for specific reasons presented by either of the High Contracting Parties the purpose of this treaty has not been fully accomplished." On March 28, 1917—long before the expiration of the first term of ten years—the treaty was extended under this clause to May 3, 1936 by the Haitian Foreign Minister and the American Minister in Haiti, for the protection of a $30,000,000 loan for the funding of the Haitian debt. This extension has not been

*Lopez, Jacinto. *El problema dominicano.* (Reforma Social, N. Y. 1925. v. 31, p. 195-204.)

ratified either by the United States Senate or by the Haitian National Assembly, which as will be seen later, was dissolved before it could take action. Nevertheless the treaty continues in effect.

THE CONSTITUTION OF 1917 OF HAITI

In 1917 a new constitution, drafted by Franklin D. Roosevelt, then Assistant Secretary of the Navy, was presented to the Haitian Assembly for approval. Largely because of a clause giving foreigners the right to own land despite the old constitutional provision to the contrary, the National Assembly refused to ratify the constitution and was promptly dissolved by the American officers of the Haitian Gendarmerie, ostensibly on the order of the Haitian President. It was necessary, however, to secure legal ratification of the constitution and, on June 12, 1918, it was finally approved by a plebiscite of an electorate for the most part illiterate.

Since 1917 there has been no legislative body in Haiti except the Council of State, which has been composed of twenty-one members nominated by the President. In the absence of any other legislative body, the Council in turn elects the President and enacts all legislation which, however, must first be approved by the American High Commissioner in Haiti before it becomes effective. This is the extent of Haitian control over internal affairs.

In the Annual Report of the American High Commissioner at Port au Prince are included the various reports of the American heads of the five administrative divisions: the gendarmerie; the office of the Financial Adviser—General Receiver; public works; public health; and service technique, which covers education and agriculture. A study of these reports shows that material progress has been achieved in Haiti by the American occupation, as, for example, the reorganization of the National Railroad of Haiti; vast programs of irrigation bringing into cultivation over 100,000 acres of fertile soil; port and harbor improvements; the building and improvement of 1,300 kilometres of main road; the introduction of industrial and agricultural education; the building of hospitals and the carrying out of a program of sanitation.

In pursuance of the provision of the Treaty which called for the arbitration of pecuniary claims, then pending before the Haitian Government, one of the most important achievements of the American Administration in Haiti has been the conclusion of the work of the Claims Commission. Out of the 73,269 claims presented by foreigners and Haitians, amounting to almost $40,000,000, only a total of $3,500,000 were allowed.

THE ADMINISTRATION OF FINANCE

The administration of finance in Haiti has differed somewhat from that followed in Santo Domingo. In the latter the Receivership was pledged to devote at least $100,000 a month to the service of the debt, and one-half of the surplus over $3,000,000 was to be paid to the sinking fund for the redemption of the bonds. The customs receipts at the time the Convention was drawn up were approximately $2,500,000, but since 1913, except for three years, receipts have been well over the $3,000,000, thus insuring application annually of from $500,000 to $1,000,000 extra to the sinking fund. This resulted, as previously shown, in the liquidation of several loans long before the date of maturity. But some Dominicans claim that this situation has hampered the internal development of the country, as funds which might otherwise have been expended on public improvements were placed beyond the control of the Dominican Government.

In Haiti the surplus, remaining after deduction of interest and amortization on the loans, the expenses of the Receivership, not to exceed five per cent of the total customs receipts, and the expenses of the constabulary, was turned over to the government. As a result, while the Haitian debt has not been amortized so quickly as the Dominican debt, internal improvement have been covered by customs receipts, whereas in the case of the Dominican Republic loans had to be effected for this purpose. At the end of 1926, Haiti's public debt stood at approximately $20,000,000 as compared with $30,-

000,000 and $35,000,000 in 1915 and 1918 respectively, its customs revenues had increased from less than $5,000,000 in 1917 to over $8,000,000, and internal revenues had increased over 400 per cent.

GRIEVANCES EXPRESSED BY HAITIAN PEOPLE

There are a large number of Haitians, however, who do not subscribe to the optimistic outlook of the American High Commissioner. They contend that since the American occupation their ideals of self-government and liberty have not only been trampled upon, but their material development as well has been retarded. They assert that the number of schools is now smaller than before the Americans took over control of Haiti; that money spent for agricultural education has been largely a waste, citing as an example the salaries paid American professors of agriculture who could not speak French and were obliged to conduct their teaching through interpreters; that the increase of revenue from imports is not due to a normal increase in the volume of imports, but has resulted from the effort of the Haitians to avoid the new high tariffs by the purchase of large stocks which they have obtained on credit.

One of the main grievances of the Haitian people is found in the new constitutional provision by which foreign corporations may acquire Haitian lands. Already American corporations have acquired large tracts of land for the cultivation of pineapples, sugar and other products. Its effect upon the morale of the people has been most depressing and has contributed to the great exodus of native-born Haitians to Cuba and Santo Domingo. More than 30,000 Haitian laborers are migrating every year to those countries, owing to economic conditions in Haiti, and as a result agriculture has been further reduced to a condition of decay and disorganization.

But above all else the Haitians strenuously insist that the present American occupation is illegal, inasmuch as it is based on an extension of the Treaty of 1915 which has never been ratified either by the United States Senate or by the Haitian National Assembly.

CUBA

The two treaties which form the basis of relations between the United States and Cuba are the Commercial Convention of 1902 and the treaty concluded May 22, 1903 embodying the terms of the Platt Amendment. By the terms of the latter Cuba agreed:

> 1. Never to enter into any treaty or other compact with any foreign power or powers which will impair or tend to impair the independence of Cuba; and never to permit any foreign control over any portion of Cuba.
>
> 2. Not to contract any public debt, the interest and sinking fund charges for which could not be paid out of the ordinary revenues after defraying current expenses of the Cuban Government.
>
> 3. That the United States may exercise the right to intervene (1) for the preservation of Cuban independence (2) the maintenance of a government adequate for the protection of life, property, and individual liberty.
>
> 4. To ratify all acts of the United States in Cuba during United States occupation and protect all lawful rights then acquired by the United States.
>
> 5. To maintain an adequate system of sanitation.
>
> 6. To omit the Island of Pines from the boundaries of Cuba specified in the Constitution and leave title thereto to be adjusted by future treaty.
>
> 7. To enable the United States to maintain the independence of Cuba, and to protect the people thereof, as well as for its own defense, the Government of Cuba will sell or lease to the United States lands necessary for coaling or naval stations, at certain specified points, to be agreed upon with the President of the United States.

These provisions appeared originally in the Platt Amendment, a "rider" to the Army Appropriation Act approved March 2, 1901 by the United States Congress. After bitter opposition, they were incorporated in the Constitution of Cuba while the Island was still under the military occupation of the United States. The provisions as to naval stations and sanitation have been and are being carried out; the future of the Isle of

Pines was settled after a long diplomatic struggle in 1925 when the United States relinquished all title and claim to it by ratifying the treaty concluded on the subject in 1904.

The United States has exercised its right to intervene under the Treaty of 1903 but once—in 1906, at the request of the President of Cuba. The activities of General Crowder in Cuba from 1921 to 1923, when he was personal representative of President Wilson and later of President Harding, were not "intervention" according to a strictly legalistic definition of the term.

The principal provisions of the Commercial Convention of 1902 provided that Cuban goods should be admitted into the United States at a reduction of 20 per cent from the regular tariff rates, and American goods, except tobacco, should be admitted to Cuba at a reduction of from 20 per cent to 40 per cent from Cuban tariff rates. These reductions were to apply even under subsequent tariff acts during the life of the Convention. The Convention has been in force since 1903 and can be terminated on one year's notice by either party.

EXTENT OF AMERICAN INVESTMENTS IN CUBA

The extent of American investments in Cuba and the relative importance of trade between Cuba and the United States in their respective total trades may be summarized briefly. Investments of American capital in Cuba at present are estimated at about $1,500,000,000, and are exceeded only by our investments in Canada. Of this total more than half is invested in the sugar industry. In addition to the investments in sugar there are considerable amounts invested in government securities, railways, public utilities, banks, hotels, mineral deposits, manufacturing industries and general agricultural lands. The economic life of Cuba is dominated almost completely by American capital and enterprise, according to one observer,* the only important exceptions being the growing of sugar cane, in which the Cubans still predominate, and the general mercantile trade of the island, still largely in the hands of Spaniards. In the size of her export and import trade with the United States, Cuba outranks every other Latin American country. In 1926 Cuba stood seventh among all American export markets and ranked fifth in the list of all countries from whom the United States imported merchandise.

All of these three factors—the Commercial Convention of 1902, the "Platt Amendment" Treaty of 1903 and the domination of Cuban economic life by American capital and enterprise — fundamentally affect present relations between the United States and Cuba. There has always been in Cuba a group opposed to the Platt Amendment Treaty, and this opposition is increasing. The present Cuban administration is openly committed to a program calling for termination of the provisions of the treaty of 1903. Even if such limitation was necessary in 1903, the period of Cuban adolescence has now passed, they argue, and Cuba no longer needs the tutelage of the United States.

A more tangible grievance of the Cubans against the United States lies in the charge that the Commercial Convention of 1902 no longer yields reciprocal advantages to both countries. They maintain that it no longer secures markets for Cuba's sugar; that since 1911 the proportion of Cuban sugar imported to the United States has decreased, while exports from the United States to Cuba have increased considerably and are benefitting by the tariff concessions which Cuba is called upon to grant by the 1902 Convention. In addition, although Cuban sugar has preferential rates over all other sugar imported into the United States, the increase in domestic sources of supply within the United States prevents Cubans, they believe, from marketing all their sugar output in the United States.

The inability of Cuba to improve her sugar market in the United States has accordingly led to Cuban agitation for the repeal of the Convention of 1902. In the meantime, the Cuban Government has taken steps to regulate its sugar business artificially and has negotiated with other sugar-producing countries in an effort to bring about an international agreement restricting the production of sugar and apportioning exportation.

*Cf. "Cuba and the United States," by O. in *Foreign Affairs*, Vol. 6, No. 2. January, 1928, pp. 231-244.

TACNA-ARICA

The part played by the United States in the attempted mediation of the Tacna-Arica dispute has been reviewed in an earlier issue of the *Information Service.** The importance of the case, however, and its significance with respect to the ability of the United States to settle controversies between Latin American countries, warrants the inclusion of a brief outline in this report.

The disputed territory, comprising about 9,200 square miles, and embracing a population of some 32,000 people, is situated in the northernmost section of Chile and has been under her control since the War of the Pacific, 1880-1883, between Chile, Perú and Bolivia. The provinces are largely arid and without natural resources of any value. Because of sentimental associations and the intense spirit of nationalism existing in both Chile and Perú, however, they are regarded much as were Alsace and Lorraine by France and Germany.

THE TREATY OF ANCON—OCTOBER, 1883

The present controversy had its origin in the Treaty of Ancón, signed October 20, 1883 at the conclusion of the war in which Chile defeated Bolivia and Perú. Article III of this treaty reads as follows:

> "The territory of the provinces of Tacna and Arica . . . shall continue in the possession of Chile, subject to Chilean laws and authority, during a period of ten years, to be reckoned from the date of the ratification of the present treaty of peace.
>
> "After the expiration of that term a plebiscite will decide by popular vote whether the territory in the above-mentioned provinces is to remain definitely under the dominion and sovereignty of Chile or is to continue to constitute a part of Perú. That country of the two, to which the provinces of Tacna and Arica remain annexed, shall pay to the other ten millions *pesos* of Chilean silver or of Peruvian *soles* of equal weight and fineness.
>
> "A special protocol, which shall be considered an integral part of the present treaty, will prescribe the manner in which the plebiscite shall be carried out, and the terms and time for the payment of the ten millions by the nation which remains the owner of the provinces of Tacna and Arica."

Between 1892 and 1922 repeated efforts were made by Perú and Chile to reach an agreement on terms under the special protocol provided in the Treaty of Ancón, but without success. The difficulty of settling the terms of the plebiscite constituted the greatest obstacle. On one occasion, in 1898, the two parties considered taking their differences to the Queen of Spain for arbitration. Years later, after the creation of the League of Nations, Perú requested the first Assembly of the League "to reconsider and revise the Treaty of Ancón." The request was withdrawn following a strong protest from Chile.

On December 12, 1921 Chile attempted to reopen negotiations. Perú suggested that the two countries submit the whole question to an arbitration agreed to through the initiative of the Government of the United States. On the invitation of President Harding, a meeting between the representatives of the two countries was held in Washington in May, 1922. After considerable difficulty a protocol of arbitration was signed providing that the unfulfilled provisions of Article III of the Treaty of Ancón "be submitted to the arbitration of the President of the United States who shall decide them . . . officially and without appeal."

SCOPE OF THE ARBITRATION

At the same time, a supplementary act was signed to define the scope of the arbitration. It stated in part that:

> 1. Arbitration shall include the question as to whether a plebiscite shall or shall not be held in the present circumstances.
>
> 2. If there is a plebiscite, the Arbitrator shall decide the conditions thereof.
>
> 3. Should the Arbitrator decide that there should be no plebiscite, both parties at the request of either of them shall discuss the situation brought about by such an award.
>
> 4. In the event that no agreement should ensue, both governments will solicit, for this purpose, the good offices of the United States.

Following ratification of the protocol, the President of the United States accepted the office of Arbitrator. The cases and counter-cases were reviewed in detail by the State Department, a task which con-

*Foreign Policy Association *Information Service*, Vol. II, No. 11, "American Mediation in the Tacna-Arica Dispute."

sumed more than two years, and on March 4, 1925, President Coolidge, who had succeeded President Harding as Arbitrator, rendered his award.

PRESIDENT COOLIDGE'S AWARD

The decision of the Arbitrator in regard to the principal question was that a plebiscite should be held. This decision upheld the Chilean contention. Perú, in submitting its case, had contended that the failure to hold a plebiscite upon the expiration of the ten year period nullified Article III of the Treaty of Ancón and that this failure had been due to the wilful obstruction of Chile. Perú further had maintained that the administration of the territory by Chile had altered the conditions essential to the plebiscite as originally contemplated in the Treaty. In support of this charge Perú cited cases showing that Peruvians in the territory had been expelled, that Peruvian schools had been closed and newspapers suppressed.

Chile, in presenting her case, contended that under Article III of the Treaty, Tacna and Arica could not be returned to Perú until three provisions had been carried out: (1) The expiration of ten years; (2) the holding of a plebiscite; and (3) the payment of 10,000,000 *soles*. Only the first of these conditions had been fulfilled. Therefore, since no other provisions had been made for the disposition of the territory, after ten years had elapsed, Tacna and Arica must necessarily remain in the possession of Chile until the conditions had been performed or modified by the consent of both parties. Chile insisted that she had not been responsible for the delay in carrying out the plebiscite.

The decision of the Arbitrator may be briefly summarized. After reviewing the history of the negotiations, President Coolidge held that the failure of previous efforts to reach an agreement did not necessarily prove obstruction on the part of Chile. With respect to the administration of the territory by Chile, he found that Article III of the Treaty of Ancón did not place any qualifications on Chile's administration except as it implied that the use of Chilean authority should not render invalid the provisions for a plebiscite. The Arbitrator held that the complaints dealing with colonization did not conflict with the terms of Article III, and that the treatment of Peruvians by Chile did not prevent the holding of the plebiscite.

Having decided that a plebiscite should be held the Arbitrator was called upon to lay down the conditions in accordance with the supplementary act of the arbitration. These provisions need not be reviewed here.*

The award of the Arbitrator aroused the greatest enthusiasm in Chile where it was felt that Chile's contentions had been upheld. In Perú the award came as a great disappointment. The Peruvian Government felt that their complaints against Chile had not been carefully treated and on April 2, 1925 they submitted a communication to the Arbitrator reiterating Perú's objections to the plebiscite, but concluding with the formal acceptance of the award.

The conditions of the Arbitrator provided for a plebiscitary commission of three members, one appointed by the Government of Chile, one by Perú and one to act as president by the United States. The Commission arrived in Arica on August 4, 1925. It was composed of General Pershing as president, Señor Santander of Peru, and Señor Edwards of Chile. The Commission remained in Tacna-Arica for ten months and in the end was forced to abandon the plebiscite. From the beginning it encountered difficulties due, largely, according to Major-General William Lassiter, who succeeded General Pershing in February, 1926, to the obstructionist tactics of Chile. It is impossible to review the work of the Commission and the many claims and counter-claims presented by Chile and Perú during this period. The reasons for abandoning the plebiscite are incorporated in the report of General Lassiter. The decision was reached on June, 14, 1926. The representative of Chile opposed the decision.

*Opinion and Award of the Arbitrator. United States Government Printing Office.

REASONS FOR ABANDONING THE PLEBISCITE

Briefly, General Lassiter maintained that since the Commission was holding a plebiscite not as an end in itself but as the duly selected "means of obtaining a free and therefore effective expression of the will of the people of Tacna and Arica" and since it has become "entirely manifest that the hope of obtaining an effective expression of the will of the people has become a delusion, it becomes *pari passu* the duty of the Commission not simply to suspend or discontinue the efforts of the Commission to hold a plebiscite, but to bring them to a definite end." It was felt by General Lassiter that there was not a presumption of doubt as to the lack of suitable plebiscitary conditions and that any such presumption was repelled by well-known facts which made it appear "that the Commission is denied the opportunity of performing its appointed task."

It was further stated in the report that even at the time when the Commission began its work, suitable conditions for a plebiscite did not exist. The report enumerated in detail many of the outrages against Peruvians which had been committed by Chile. Finally the report criticized the limited powers granted the Commission in the conditions defined by the Arbitrator.

The final abandonment of the plebiscite aroused intense indignation in Chile and unrestrained enthusiasm in Perú. General Lassiter's report was promptly denounced by Chile in a series of cablegrams and letters to all Chilean diplomatic and consular officers in June and July. A reflection of the bitterness aroused in Chile against the United States was furnished by General Arturo Alessandri, former president of the Chilean Republic, in an interview published in the *New York Times*. General Alessandri declared that the efforts of the American Government to bring about a settlement of the controversy had only served to increase the antagonism between the two South American Republics, and had alienated Chilean friendship for the United States. He said that there was nothing further that the United States could do toward a settlement.

The course of the arbitration proceedings had been followed closely through Latin America and were widely regarded as a test not only of the Pan-American principle, but also of the ability of the United States to perform a difficult task of settlement impartially and skillfully. The failure of the negotiations led to the opinion in some South American quarters that the United States had failed to devote her best talents to the settlement of the problem.

FINAL EFFORTS TO ACHIEVE SOLUTION

One final effort to adjust the differences between Chile and Perú was made by the United States. On November 30, 1926 a memorandum suggesting a settlement was sent to the Chilean and Peruvian Ambassadors in Washington. The memorandum suggested that Chile and Perú voluntarily cede their rights and interests in Tacna and Arica to Bolivia, subject to certain guarantees for the protection of the rights of all inhabitants of the provinces. Bolivia was to provide adequate compensation for the cession of the territory, and the apportionment of the compensation between Chile and Perú was to be agreed upon by the representatives of the two governments. The Secretary of State of the United States offered his good offices if required. The memorandum further suggested the erection of a lighthouse or monument on the coast of Arica to commemorate the friendly settlement of the dispute. The land on which the monument was to stand was to be under an international commission.

This proposal was accepted unconditionally by Bolivia. Chile accepted in principle. Perú, after some delay, rejected the proposal on the ground that Perú was unable to sacrifice the rights of her citizens in Tacna-Arica in return for a monetary consideration.

Since the failure of this compromise proposal, the United States has not again extended its good offices. As recently as No-

vember 2, 1927, however, Miles Poindexter, American Ambassador to Perú, declared, in an interview, that a solution of the question would enhance the prestige of the United States Government in South America, while the failure of this government to bring about a satisfactory settlement would, on the other hand, create further ill feeling against the United States. If the Tacna-Arica question should fail of settlement and war should result between Perú and Chile, Ambassador Poindexter believes that the prestige of the United States in South America would suffer greatly.

Officials at the State Department, however, indicated recently that the United States had no further proposals to offer. They regarded it as extremely unlikely that the United States would take the initiative in offering mediation. At the same time, if Chile and Perú wished to make any definite proposal the United States would be glad to consider what assistance it might render.

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APPENDIX

The following tables have been compiled in an attempt to outline the financial situation of the American nations. Table I briefly summarizes the defaults of American governments during the last century, while Table II lists only the principal loans still in default. There have been fifty-three cases of governmental default, covering approximately one hundred loans, and only two repudiations. In almost every case (exceptions noted in Table II) some sort of compromise was eventually effected with the bondholders and payments were resumed. The two countries which have definitely repudiated certain loans are Mexico and the United States. On the re-establishment of the Mexican republic in 1867, the government refused to acknowledge the so-called "Maximilian Loan" contracted for the purpose of obtaining funds for upholding the Empire against the Republican party at the time of the French intervention. The loans repudiated by eight states of the United States, however, were contracted principally for the purpose of financing railways and other public enterprises.

A statement of the loan and investment situation at the beginning of 1926 is given in Tables III and IV. Tables V, VI and VII contain data on the foreign trade, revenues and expenditures of the twenty-one American republics. In Table VIII an attempt has been made to classify the provisions found in Latin American constitutions in regard to the property rights of aliens.

TABLE I

PRINCIPAL GOVERNMENT LOANS DEFAULTED BY LATIN AMERICAN COUNTRIES[1]

COUNTRY	YEAR OF DEFAULT	YEAR AND ORIGINAL AMOUNT OF LOAN		COMPROMISE EFFECTED WITH BONDHOLDERS
Argentina	1830	1824	£ 1,000,000	1880
	1892	1889	$379,757,426	1906
	1918	1910	£ 2,000,000	1924
	1915	1908	£ 1,500,000	
		1910	£ 1,047,620	
		1913	£ 440,878	1917
		1909	£ 2,380,952	
		1910	£ 3,500,000	
		1911	£ 611,111	
Bolivia[2]	1874	1872	£ 1,654,000	1877
Brazil[2]	1898	1883	£ 4,599,600	
		1888	£ 6,297,300	Interest suspended till 1901
		1889	£ 19,837,000	Sinking fund suspended till 1910
		1895	£ 7,442,000	
	1914	1901,2,5	£ 16,619,320	
		1903–5	£ 8,500,000	
		1906	£ 1,100,000	
		1908	£ 4,000,000	
		1909	Fr. 100,000,000	
		1909	Fr. 40,000,000	Interest suspended till 1917
		1910	£ 1,000,000	Sinking fund suspended till 1927
		1910	Fr. 100,000,000	
		1911	Fr. 60,000,000	
		1911	£ 4,500,000	
		1911	£ 2,400,000	
		1913	£ 11,000,000	
		1914	£ 14,502,396	

1. Council of the Corporation of Foreign Bondholders, *Fifty-Third Annual Report*, 1926. London, The Council, 1927, unless otherwise indicated.

2. Moody's *Governments and Municipals*, 1927.

COUNTRY	YEAR OF DEFAULT	YEAR AND ORIGINAL AMOUNT OF LOAN		COMPROMISE EFFECTED WITH BONDHOLDERS
Chile[1]	1826	Defaulted on external loans		1840
Colombia	1826	1822	£ 2,000,000	1844[2]
		1824	£ 4,750,000	
	1880	1873	£ 6,630,000	1896
	1900	1896	£ 2,700,000	1905
Costa Rica	1874	1871	£ 1,000,000	1885
		1872	£ 2,400,000	
	1895	1885	£ 2,000,000	1897
	1901	1885	£ 2,000,000	1911
Cuba	1921	1905	$ 11,250,000	Int. for Nov. in default
Ecuador	1834	1822	£ 2,000,000	1855[2]
		1824	£ 4,750,000	
	1868	1855	£ 566,120	1892
			$ 860,000	
	1910	1908	$ 1,080,800	1912 (First Mortgage)
			$ 2,486,000	1912 (Prior Lien)
			$ 1,075,050	1913 (Salt bonds)
	1914	(Guayaquil and Quito Ry. First Mortgage Bonds)		28 coupons and over 17 yrs. sinking fund in arrears.
		(Guayaquil and Quito Ry. Prior Lien Mortgage Bonds)		1920
		(Salt bonds)		one coupon and over 11 years sinking fund in arrears.
		1909	Fr. 7,000,000	In default
		1911	£ 200,000	In default
Guatemala	1828	1825	£ 67,900	1856
	1864	1863	£ 11,300	1868
	1876	1856	£ 100,000	1888
		1869	£ 500,000	1888
	1894	1888	£ 922,700	1919—Sinking fund resumed Interest still in arrears amounting to £844,603.
Haiti	1915	1875	Fr. 36,464,500	1922
		1896	Fr. 50,000,000	1922
		1910	Fr. 65,000,000	1920
Honduras	1827	1825	£ 27,200	1867
	1873	1867	£ 90,000	1926
		1867	£ 1,000,000	
		1869	£ 2,490,108	
		1870	£ 2,500,000	
Mexico	1827	1824	£ 3,200,000	1831
		1825	£ 3,200,000	
	1867	1864	£ 4,864,800	1886
	1867	1865	£ 12,365,000	(Maximilian Loan) Repudiated.
		1865	$ 500,000	Also repudiated
	1913	1895	P 96,458,400	In default[3]
	1914	1885	P 76,063,100	
		1899	£ 22,700,000	
		1904	$ 40,000,000	
		1908	$ 25,000,000	
		1910	Fr. 280,275,000	
		1911	$ 4,500,000	
		1913	£ 16,000,000[4]	

1. Moody's *Governments and Municipals*, 1927.

2. These loans were contracted by the Republic of Colombia which in 1832 was split up into three separate Republics, (New Granada, now Colombia, Ecuador and Venezuela.)

3. Principal national government obligations included in Plan and Agreement of 1922 between the Mexican Government and the International Committee of Bankers on Mexico, later modified in 1925. Payments under this agreement were made in 1923, but have been discontinued since that time.

4. Series A, £6,000,000 was included in Plan and Agreement of 1922. Series B, C and D were repudiated.

COUNTRY	YEAR OF DEFAULT	YEAR AND ORIGINAL AMOUNT OF LOAN		COMPROMISE EFFECTED WITH BONDHOLDERS
Nicaragua	1827	1825	£ 27,200	1875
	1912	1909	£ 1,250,000	1920
Paraguay	1874	1871 1872	£ 1,000,000 £ 2,000,000	1885
	1920	Old External Debt		1925
	1927	1915	£ 440,320	Service on this loan in arrears
Perú[1]	1889		£ 27,000,000	1890
	1915	1889	£ P3,623,260	1924
	1915	1898	£ P4,697,500	1924
Salvador	1828	1825	£ 27,200	1860
	1922	1908 1915	£ 1,000,000 £ 229,908	1923
Santo Domingo	1872	1869	£ 757,700	1888
	1892	1888 1890	£ 770,000 £ 900,000	1893
	1899	1897	£ 4,236,750	1908
United States ..... (Southern States)	Alabama Arkansas Florida Louisiana Georgia North Carolina South Carolina Mississipppi		Details not available $ 7,000,000	Approximate amount in default, $75,200,000. Debts repudiated.
Uruguay	1876	1864 1871	£ 1,000,000 £ 3,500,000	1878
	1915	1891 1896 1905 1909	£ 19,300,000 £ 1,667,000 £ 6,912,836 £ 1,276,672	1921 1922 1921 1921
Venezuela	1834	1822 1824	£ 2,000,000 £ 4,750,000	1841[2]
	1847	1841	£ 2,007,159	1859
	1860	1841	£ 2,007,159	1862
	1864	1841 1862	£ 2,007,159 £ 1,000,000	1881 1881
	1867	1864	£ 1,500,000	1881
	1898	1881 1896	£ 4,000,000 Bols. 50,000,000	1903

1. Moody's *Governments and Municipals*, 1927.

2. These loans were contracted by the Republic of Colombia which in 1832 was split up into three separate Republics, (New Granada, now Colombia; Ecuador and Venezuela.) By the Convention of 1834 the debt of the old Republic was divided as follows: New Granada, £4,903,203; Ecuador, 2,108,377; Venezuela, 2,794,826.

TABLE II

PRINCIPAL LOANS STILL IN DEFAULT[1]

	Principal Outstanding	Approximate Interest in Arrears
ARGENTINA: Provincial and Municipal Loans		
Province of Corrientes 6% External Gold Loan of 1910	£ 297,520	£ 142,809
BRAZIL: Provincial and Municipal Loans		
State of Alagoas—5% Bonds of 1909	258,420	19,381
State of Pará—5% Gold Bonds of 1901	1,269,780	222,211
5% Sterling Bonds (1907)	568,960	170,685
5% Funding Loan of 1915	1,021,320	311,003
City of Bahia—5% Loan of 1912 (London Issue)	497,500	211,437
5% Funding Loan	95,300	45,372
City of Pará (Belem)—5% Gold Bonds of 1905	921,040	287,500
5% Funding Bonds of 1915	885,000	287,625
6% Treasury Bills of 1919	272,660	101,652
City of Manaos—5½% Sterling Bonds	269,800	148,390
	£ 6,059,780	£ 1,805,256
ECUADOR		
Guayaquil and Quito Railway 5% First Mortgage Bonds	2,213,475	1,548,566
4% Salt Bonds	104,934	2,098
	£ 2,318,409	£ 1,550,664
MEXICO[2]		
Republic of Mexico 5% Consolidated External Gold Loan of 1899	$49,786,300	$29,703,000
Republic of Mexico 4% External Gold Loan of 1910	52,255,800	23,356,000
Republic of Mexico 6% 10-year Treasury Notes of 1913 (A)	30,000,000	21,243,000
Republic of Mexico 6% 10-year Treasury Notes of 1913 (C)	3,500,000	2,520,000
Caja de Prestamos, etc., 35-year 4½% gold bonds	25,000,000	15,500,000
United States of Mexico 4% gold bonds of 1904	37,037,500	18,156,000
Rep. of Mexico Consolidated 3% Internal Debt of 1885	21,147,573	7,613,121
United States of Mexico 5% Int. Redeemable Bonds of 1895	45,252,158	27,412,613
Mexican National Packing Co. 6% 1st Special Mortgage gold bonds of 1911; and 2nd Mortgage	4,500,000	3,510,000
	$268,479,331	$149,014,734
UNITED STATES		
Southern States	£15,040,000	£49,632,000

1. Council of the Corporation of Foreign Bondholders, *53rd Annual Report, 1926.* London, The Council, 1927.

2. In 1925, under the modifications of the Plan and Agreement of 1922, the railways were returned to private ownership, and the Mexican Government was released, at least theoretically, of its railway debt of approximately $251,000,000 and interest in arrears of approximately $133,000,000, which were assumed by the private railway companies.

TABLE III

GOVERNMENT DEBT AND RATING OF BONDS[1]

	GOVERNMENT FOREIGN DEBT 1925	RATING OF OUTSTANDING BONDS (2)							
		No. of Issues	Aa	A	Baa	Ba	B	Caa	Ca
Argentina	$117,457,000	47	32	15	—	—	—	—	—
Bolivia	15,316,000	4	—	—	2	1	1	—	—
Brazil	632,000,000	31	—	3	16	11	1	—	—
Chile	197,981,000	36	—	29	5	2	—	—	—
Colombia	17,805,000	3	—	—	2	1	—	—	—
Costa Rica	10,592,000	4	—	—	1	2	1	—	—
Cuba	87,632,000	6	—	4	2	—	—	—	—
Dominican Republic	12,276,000	3	—	3	—	—	—	—	—
Ecuador	19,245,000	7	—	—	—	2	1	1	3
Guatemala	7,500,000	1	—	—	—	—	1	—	—
Haiti	21,934,000	4	—	1	2	1	—	—	—
Honduras	5,732,000[3]	5	—	—	—	—	—	4	—
Mexico	517,644,000	9	—	—	—	3	4	2	—
Nicaragua	7,390,000	2	—	—	—	2	—	—	—
Panamá	8,380,000	6	2	—	4	—	—	—	—
Paraguay	7,745,000	2	—	—	—	2	—	—	—
Perú	34,678,000	12	—	—	5	7	—	—	—
Salvador	19,250,000	5	—	1	2	2	—	—	—
Uruguay	153,985,000	21	—	9	12	—	—	—	—
Venezuela	17,838,000	2	—	—	1	1	—	—	—

1. Moody's *Governments and Municipals*, 1927.
2. Moody's *Governments and Municipals*, 1927.

Aa — Strong investments and generally fundamentally secure, but subject to some qualification in security or stability.

A — Good.

Baa—Bonds of this rating require close discrimination. They can not as a group be uniformly recommended, but they will often represent opportunities for persons who are willing to concede some investment quality for the sake of attractive yield or possibilities of improvement in the long run.

Ba — Still lower quality. While many of them possess some investment quality, yet all carry a distinctly uncertain tinge and cannot be regarded as at all attractive from the standpoint of real security.

B — Issues which are still paying their interest but are in imminent danger of default.

Caa—Has either defaulted or appears certain to default within the very near future.

Ca — Still lower plane. Usually a foreign "Ca" bond is an obligation of a country whose currency has so heavily depreciated that very little value is left of the security, and there is little or no hope of any substantial improvement short of partial repudiation.

3. One loan unclassified.

TABLE IV

INVESTMENTS IN LATIN AMERICA[1]

	FOREIGN CAPITAL INVESTED	U. S. CAPITAL INVESTED	PERCENTAGE OF U. S. CAPITAL
Argentina	$4,000,000,000	$350,000,000	9%
Bolivia	145,000,000	70,000,000	48
Brazil	2,750,000,000	300,000,000	11
Chile	1,000,000,000	400,000,000	40
Colombia	90,000,000	45,000,000	50
Costa Rica	65,000,000	28,500,000	44
Cuba	1,610,000,000	1,360,000,000	85
Dominican Republic	.....	18,000,000[2]	..
Ecuador	.....	30,000,000[3]	..
Guatemala	66,000,000	15,000,000[3]	23
Haiti	.....	23,000,000[3]	..
Honduras	.....	40,000,000[3]	..
Mexico	3,400,000,000	1,280,000,000	37
Nicaragua	.....	23,000,000[2]	..
Panamá	.....	12,000,000[2]	..
Paraguay	50,000,000	15,000,000	30
Perú	320,000,000	100,000,000	31
Salvador	.....	25,000,000[2]	..
Uruguay	300,000,000	45,000,000	15
Venezuela	175,000,000	75,000,000	43

1. Moody's *Governments and Municipals*, 1927, unless otherwise indicated.
2. *American Investments in the Western Hemisphere.* Editorial Research Reports, May 17, 1926.
3. Dunn, Robert W. *American Foreign Investments.* New York, Viking Press, 1926.

TABLE V

AREA, POPULATION, PER CAPITA TRADE, REVENUE AND EXPENDITURES, AND ARMIES OF THE AMERICAN COUNTRIES

COUNTRY	(Square Miles) Area (1)	Population (1)	Per Capita Foreign Trade (3) 1925	Per Capita Revenue (4) 1926	Per Capita Expenditures (4) 1926	Total men in Armies (5)
Argentina	1,153,417	9,839,000	$171.10	$28.02	$31.30	54,924
Bolivia	560,000	2,820,000	25.88	5.38	5.38	8,000
Brazil	3,276,358	33,737,000	26.40	5.87	4.48	47,984
Chile	290,160	3,905,000	96.60	27.29	36.82	16,248
Colombia	495,522	6,760,000	24.40	6.40	6.38	6,448
Costa Rica	23,005	498,000	60.64	12.53	9.81	37,605
Cuba	44,164	3,369,000	192.28	24.31*	24.31*	12,443
Dominican Republic	19,332	897,000[2]	58.08	12.49*	12.23*	1,578[6]
Ecuador	118,627	2,000,000	31.04	4.10	4.10	5,500
Guatemala	42,364	2,185,000	24.31	3.44	3.43	7,525
Haiti	10,207	2,045,000	19.41	3.54*	4.25*	2,595[6]
Honduras	46,262	650,000	38.00	8.33	8.33	2,253
Mexico	760,290	14,235,000[2]	37.75	10.74	10.72	57,368
Nicaragua	49,213	690,000	32.90	3.20	2.50	337[6]
Panamá	32,388	446,000	38.96	12.77*	16,97*	756[6]
Paraguay	97,722	1,000,000	32.33	4.92	4.92	1,717
Perú	532,185	6,000,000	32.41	5.89	5.89	9,445
Salvador	13,176	1,650,000	20.30	5.52	5.50	4,000[6]
Uruguay	72,172	1,632,000	122.70	28.08*	28.06*	8,252
Venezuela	393,977	2,562,000	47.26	5.19*	4.98*	7,500[6]
United States	3,627,557	107,321,000	85.13	36.32	28.23	391,392[7]

1. Statistical Abstract, 1925, p. 812-6.
2. Figures are for 1921.
3. Pan American Union—Foreign Trade Series, 1926.
4. U. S. Bureau of Foreign and Domestic Commerce. Commerce Yearbook 1925. *Figures for Panama and Dominican Republic are for 1924; others are for fiscal year 1925-26.
5. League of Nations Armaments Year Book, 1926-27. Geneva, 1927. Figures are for 1925.
6. Police force. Figure for Nicaragua is for 1923.
7. Includes: Regular army, 136,560; National Guard, 177,525; Reserve forces, 77,307.

TABLE VI

COMPARISON OF UNITED STATES AND LATIN AMERICAN TOTAL POPULATION, FOREIGN TRADE, REVENUES, EXPENDITURES AND ARMIES

	Total Population	Total Foreign Trade	Total Revenue	Total Expenditures	Total men in Armies
Latin America	96,920,000	$5,266,750,000	$1,036,924,000	$1,059,120,000	292,478
United States	107,321,000	9,136,437,000	3,908,458,000	3,030,387,000	391,392

TABLE VII

TOTAL AMERICAN TRADE AND PERCENTAGE OF TOTAL TRADE WITH UNITED STATES

	Total Foreign Trade, 1925 (1)	Total Trade with United States, 1925 (1)	Percent of Total	Total Trade with United States, 1926, (2)
Argentina	$1,692,434,000	$269,537,000	15.9%	$231,633,000
Bolivia	73,067,000	10,972,000	15.0%	5,443,000
Brazil	889,920,000	318,989,000	35.9%	330,756,000
Chile	377,426,000	120,382,000	31.9%	130,485,000
Colombia	165,087,000	112,000,000	67.6%	139,533,000
Costa Rica	30,237,000	14,511,000	48.0%	13,362,000
Cuba	648,146,000	448,231,000	69.2%	421,088,000
Dominican Republic	52,109,000	22,110,000	42.4%	22,703,000
Ecuador	62,085,000	26,779,000	43.2%	11,419,000
Guatemala	53,056,000	28,578,000	53.9%	25,579,000
Haiti	39,641,000	17,886,000	45.2%	12,237,000
Honduras	24,736,000	20,763,000	84.2%	16,260,000
Mexico	536,740,000	395,679,000	73.7%	304,300,000
Nicaragua	22,736,000	15,243,000	67.1%	12,240,000
Panamá	17,388,000	11,358,000	65.3%	37,470,000
Paraguay	32,333,000	2,597,000	8.0%	1,446,000
Perú	194,514,000	71,138,000	36.5%	51,150,000
Salvador	33,498,000	13,000,000	38.8%	13,794,000
Uruguay	200,594,000	38,193,000	19.0%	41,517,000
Venezuela	121,000,000	43,000,000	35.5%	63,006,000

1. Pan American Union—*Trade Series No. 19*, 1927.
2. *United States Statistical Abstract*, 1926.

TABLE VIII

LATIN AMERICAN CONSTITUTIONAL PROVISIONS RE. ALIEN PROPERTY RIGHTS

I No special mention made of foreigners.
Chile—September 18, 1925.
Dominican Republic—June 13, 1924.
Uruguay—September 10, 1829.

II Foreigners enjoy same privileges as citizens. No qualifications.
Argentina—September 25, 1860. Article 20.
Bolivia—October 15, 1901. Article 19.
Paraguay—November 25, 1870. Article 33.

III Foreigners enjoy the same privileges that are accorded in their respective countries to the citizens of the nation in which they are residing.
Colombia—August 4, 1886. Art. 11, Sec. 2.
Costa Rica—Constitution of 1917. Art. 16.
Panamá—February 13, 1904. Art. 9.

IV Foreigners enjoy the same privileges as citizens and cannot claim indemnity for losses or seizures not caused by lawful authorities in their official capacity.
Guatemala—December 11, 1879 (Amended 1887). Art. 14.
Salvador—August 13, 1886. Art. 46.
Venezuela—June 24, 1925. Arts. 37 and 39.

V Foreigners enjoy the same privileges as citizens but may not invoke the diplomatic protection of their respective governments except in cases of denial of justice, nor have "any other recourse than that which the law concedes to citizens."
Costa Rica—Constitution of 1917. Art. 49.
Ecuador—January 12, 1897. Art. 38.
Guatemala—December 11, 1879 (Amended 1887 and 1921). Art. 23.
Honduras—September 10, 1924. Art. 15.
Mexico—January 31, 1917. Art. 27, Sec. 1.
Nicaragua—Nov. 10, 1911—Arts. 13 and 15.
Perú—Constitution of 1919. Art. 39.

VI Foreigners may not hold property "necessary for the safety and defense of the Nation," nor property within a certain distance of the frontiers or the coast.
Brazil—February 24, 1891. (Amended 1926). Art. 72, Sec. 17b.
Mexico—January 31, 1917. Art. 27, Sec. 1.
Perú—Constitution of 1919. Art. 39.